

PREM 19/1227



CONFIDENTIAL FILING

The Community Budget

EUROPEAN

Developments in the European Community

POLICY

PART I: MAY 1979

PART 23: FEBRUARY 1984

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PART 23 **ends:-**

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Published Papers

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House of Commons HANSARD, 22 March 1984, columns 1173 to 1178: Oral Answers

Signed

J. Gray

Date

17/9/2013

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1192 OF 30 MARCH

INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS
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BUDGET IMPALANCES

MR WILLIAMSON, MR STAPLETON
MR DURIE — CABINET OFFICE

MR UNWIN, MR FITCHEW,
MR MORTIMER — HM TRESURY
MR COLES — NO 10 DST

1. WILLIAMSON AND I SAW DAVIGNON THIS AFTERNOON (NOEL, LACROIX AND DE BOISSIEU BEING PRESENT.) I THINK THAT HE HAS NOW TAKEN FIRM CONTROL OF THE COMMISSION'S OPERATIONS, WORKING WITH ORTOLI. (NO WORD OF THESE MEETINGS SHOULD REACH THE EARS OF ANY OTHER MEMBER GOVERNMENT.)

2. HE SAID THAT HE WAS WORKING ON THE ASSUMPTION THAT THE FRENCH WOULD NOT AGREE TO ANY OUTCOME UNLESS IT COULD BE PRESENTED AS BEING DONE BY MITTERRAND. EQUALLY THE OUTCOME HAD TO BE ACCEPTABLE TO US. HIS IDEA WAS TO DISCUSS THE SITUATION WITH YOU ON SUNDAY NIGHT AND, IF POSSIBLE, TO PUT TO YOU A PROPOSAL WHICH YOU, AFTER CONSULTING THE PRIME MINISTER AND YOUR COLLEAGUES, MIGHT BE ABLE TO TELL HIM WOULD BE ACCEPTABLE TO THE UK IF IT WERE ACCEPTABLE TO EVERYBODY ELSE. ON THAT BASIS THEY WOULD TRY TO SELL IT TO MITTERRAND AND, IF HE COULD AGREE, DISCUSS HOW IT COULD BE PUT OVER WITH THE OTHERS. I SAID THAT WE HAD NO DISCRETION TO MOVE IN ANY WAY AT ALL AND THAT YOU WOULD NOT HAVE ANY ON SUNDAY EITHER. BUT WE WERE VERY READY TO LISTEN TO ANY IDEAS HE MIGHT HAVE FOR FINDING A SOLUTION.

3. DAVIGNON SAID THAT THE GERMANS WERE BEGINNING TO TRAMPLE ABOUT. ! THEY HAD GIVEN THE COMMISSION AN APPALLING WORKING DOCUMENT YESTERDAY (I BELIEVE IT SUGGESTED THAT THE GERMAN THRESHOLD MUST BE SET AT A LEVEL WHICH GAVE THEM A REFUND EQUAL TO 50 PER CENT OF THEIR NORMAL SHARE OF THE UK REFUND). IF THEY BROUGHT ALL THIS OUT INTO THE OPEN AT THE ECOFIN COUNCIL, THE NEGOTIATION WOULD BE SET BACK A LONG TIME AND WE MIGHT WELL LOSE THE SYSTEM. THE COMMISSION WERE TRYING TO PERSUADE DELORS TO DO AS LITTLE AS POSSIBLE ON MONDAY.

4. DAVIGNON SAID THAT HE WAS PREPARED TO TRY TO MOVE THE REFUND FIGURE UNDER DISCUSSION (FOR USE ON THE BASIS OF THE 1983 FIGURES) UP TO 1100. HE RECOGNISED THAT IT WAS NOW ALSO NECESSARY TO FIX THE THRESHOLD AND THE TICKET MODERATEUR (TM). ONCE AGREEMENT HAD BEEN REACHED IT MIGHT BE POSSIBLE TO PRESENT THE SOLUTION ON THE BASIS OF THE FIGURE FOR THE THRESHOLD AND THE PERCENTAGE FOR THE TM. BUT HE AGREED WITH MY POINT THAT WE HAD TO WORK ON THE 1983 FIGURES, AND HE SAW NO WAY OF AVOIDING FIXING THE COMPENSATION FIGURE.

5. THE OTHERS WERE PRETTY ENTRENCHED ON 1000. THEY WERE ALSO WORRIED ABOUT THE NET COSTS OF ENLARGEMENT. HE WAS THEREFORE WONDERING WHETHER THERE WAS ANY WAY IN WHICH HE COULD JUSTIFY MOVING TO 1100 BY SOME SPECIAL ARRANGEMENTS FOR THE COSTS OF ENLARGEMENT DURING THE TRANSITIONAL PERIOD (IE THE NET BENEFITS OF SPAIN AND PORTUGAL.) IT EMERGED THAT HE WAS THINKING OF HAVING A DIFFERENT TM FOR THE LATTER.

6. DISSENSION BROKE OUT IN THE COMMISSION CAMP ON THE PERCENTAGE FOR THE TM. NOEL DEVELOPED THE THESIS THAT WE HAD ALWAYS BEEN TALKING ABOUT A ONE-THIRD/TWO-THIRDS SPLIT AND THE TM SHOULD THEREFORE BE ONE THIRD. WE DISMISSED THIS, ARGUING VERY STRONGLY FOR 5 PER CENT. DAVIGNON SEEMED RELATIVELY RECEPTIVE. HE ARGUED WITH NOEL THAT BUDGETARY DISCIPLINE SHOULD PREVENT ANY BIG INCREASE IN UK NET CONTRIBUTION FOR AGRICULTURE AND THAT THE UK SHOULD BE A NET BENEFICIARY ON NEW POLICIES, THUS REDUCING OUR GAP RATHER THAN INCREASING IT. THE IMPORTANT THING WAS TO HAVE A TM FOR THE TRANSITIONAL PERIOD ON ENLARGEMENT WHICH MET THE ANXIETIES OF THE OTHER MEMBER GOVERNMENTS.

7. IN THE COURSE OF DISCUSSION I PINNED DAVIGNON DOWN TO A BROAD STATEMENT THAT A RELATIVELY LOW TM WOULD APPLY TO EVERYTHING EXCEPT ENLARGEMENT (AND POSSIBLY "SOLIDARITY" PAYMENTS, BY WHICH HE MAY HAVE MEANT IMPS). I POINTED OUT MOREOVER THAT, GIVEN THE VERY LARGE CONTRIBUTION WHICH WE WOULD, ON OUR OWN FIGURES, BE MAKING IN 1986, THERE COULD BE NO QUESTION OF US ALSO CONTRIBUTING NORMALLY TO SPAIN AND PORTUGAL'S NET BENEFITS. THE PRESIDENCY TEXT MADE IT CLEAR THAT THE COSTS OF ENLARGEMENT WOULD BE TAKEN CARE OF BY USING RELATIVE PROSPERITY IN A COMMUNITY OF 12 AND BY THE NORMAL TM. DAVIGNON CONTINUED TO ARGUE THAT SOMETHING SPECIAL MUST BE DONE ABOUT ENLARGEMENT. EVEN IF NOEL AND ORTOLI DO NOT GET AT HIM TOO MUCH I THINK THAT THE BEST WE CAN HOPE HE MIGHT PROPOSE WOULD BE SOMETHING LIKE A 5 PER CENT NORMAL TM AND A 10 PER CENT SPECIAL TM FOR THE COSTS OF ENLARGEMENT.

8. WE ATTACKED THE COMMISSION OVER THE POSSIBILITY THAT THEY MIGHT DO THE FIGURES FOR ECOFIN ON THE ASSIETTE BASIS FOR THE VAT SHARE (GIVING A 1983 GAP OF 1680 RATHER THAN 1622). NOEL AND LACROIX ARGUED VERY STRONGLY AGAINST USING THE PAYMENTS BASIS FOR THE SYSTEM WHICH THEY SAID WOULD RESULT IN PECULIAR DISTORTIONS. (I WILL GET MY STAFF TO GO INTO THIS MORE FULLY ON MONDAY.) WE SAID THAT OUR EXPERTS CLAIMED THAT IT DID NOT MATTER IN THE LONG RUN WHICH BASIS WAS USED. BUT THE PAYMENTS BASIS HAD BEEN USED UP TO NOW, AND ALL THE DISCUSSIONS OVER THE PAST 10 DAYS HAD BEEN ON THE BASIS OF A UK GAP OF 1622 FOR 1983. IT WOULD BE HIGHLY CONFUSING AS WELL AS PREJUDICIAL TO OUR POSITION NOW TO START USING THE 1680 FIGURE. DAVIGNON WAS RECEPTIVE BUT NON-COMMITTAL.

9. DAVIGNON SAID THAT IT HAD BEEN A USEFUL MEETING. HE AND ORTOLI WOULD REFLECT, AND HE HOPED THAT WE WOULD DO SO WITH YOU BEFORE OUR DINNER ON SUNDAY.

10. FCO PLEASE DISTRIBUTE ONLY TO NAMED ADVANCE ADDRESSEES.

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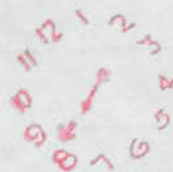
CAB - WILLIAMSON, STAPLETON, DURIE

TSY - UNWIN, FITCHEW, MORTIMER

NO10 - COLES

BUTLER

30 MAR 1984



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Date: 30.3.84

A brief for the debate on the current negotiations within the European Community to be held on Tuesday, 3rd April 1984.

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Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
Andrew Tyrie Ext. 2519

A) General characteristics of the Budget

The 1984 Community Budget amounts to about 25 billion ecu (£15 billion). These revenues are derived from the Community's 'own resources'. Certain revenues, although collected by national authorities, belong to the Community from the time of their collection. About 60% of the Community's revenues are derived from VAT (calculated on a harmonised base), and the remaining 40% comes from customs duties and levies on agricultural imports. The Community is very close indeed to the 1 per cent VAT ceiling which limits any extension of Community expenditure. On the expenditure side, the Guarantee section of the CAP takes up two thirds of the budget. The rest is composed of regional and social funds (c13%), refunds to the UK and West Germany (c5%), aid (c4%) and on research projects, energy projects, administration, and the agricultural Guidance section.

B) Cause of the Budget problem

- i) Revenue. Our percentage contribution to 'own resources' exceeds our percentage share of Community GDP. This is because our economy is relatively more open than those of the other Member States, and a higher proportion of these imports still come from outside the Community than is the case with other Member States.
- ii) Expenditure. The relative smallness of the UK's agricultural sector and the fact that surplus production is largely concentrated in other Member States means that the UK obtains only about 11 per cent of the Guarantee section of the CAP, which in turn accounts for two thirds of the budget.

Under the existing budgetary system there is no likelihood that there will be any change in this large net contribution to the Community budget that results. (See table appended). The existing budgetary system pays little regard to the distributive impact of its policies on Member States, whereas individual countries ensure that their fiscal systems achieve a redistribution of resources from prosperous areas to disadvantaged ones. It could be contended that any truly Community budgetary system should accommodate a similar principle.

C) The Conservative Government and the May 30th Agreement

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

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

There followed seven months of concentrated negotiations which culminated in the May 30th Agreement under which our partners agreed to pay compensation for Britain's excessive contribution in respect of 1980 and 1981, with a possible extension for a third year should a long term solution not have been devised by then. The 'refunds' paid for the first two years amounted to £1.7 billion and were used to help finance infrastructure projects primarily, although not exclusively, in the United Kingdom's Assisted Areas. The second element of the May 30th Agreement was to give the Commission a 'Mandate' to produce proposals on the restructuring of the Community's expenditure priorities without calling into question the basic principles of the 'own resources' system or the Common Agricultural Policy but with the objective of preventing the recurrence of an 'unacceptable situation' for any Member State.

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

Concentrated negotiations took place during the second half of the British Presidency on the basis of the Mandate Report. A breakthrough was made at the London meeting of the European Council when disagreement was narrowed to four heads: control of production in the milk sector; improved support arrangements for Mediterranean agriculture; the target for the growth of agricultural expenditure within the total resources available to the Community; and the initiation of a mechanism to prevent any Member State from having to make an inequitably large net contribution to the Budget. Unfortunately, however, the momentum of the negotiations was lost during the early months of the Belgian Presidency. In an effort to break the deadlock which was beginning to develop the Presidents of the Council and Commission, Mr Leo Tindemans and M. Gaston Thorn, tabled various proposals which would have ensured that Britain received budgetary compensation over a 3-5 year period. However, the negotiations inevitably became entangled with the Annual Farm Price Review for 1982-83. An interim settlement for 1982, in accordance with the optional extension provided for by the May 30th Agreement, was promoted by the Presidency. Discussions on this were continuing when the Community was thrown into turmoil following the setting aside of the British veto on the Farm Price package. This repudiated the fundamental link between agricultural spending and the budget problem which had been unanimously recognised by Heads of Government at the European Council meeting in London.

D) The May 25th 1982 Agreement

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

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

E) Stuttgart Summit

At the Stuttgart Summit agreement was reached on the diagnosis - what the problems were, but not the solutions to those problems. The impending exhaustion of the Community's 'own resources' was becoming an important factor in concentrating the minds of those Member States who under the existing budgetary system were net beneficiaries (all countries except West Germany and the UK). At Stuttgart the Community agreed a programme for firm decisions on its future financing, including, and this is vital for us, a fairer distribution of the burden.

The Stuttgart communique stated:

'In the course of the coming six months a major negotiation will take place to tackle the most pressing problems facing the Community so as to provide a solid basis for the further dynamic development of the Community over the remainder of the present decade.'

These problems were discussed in a series of Special Council meetings in the Autumn of 1983. There was a wide measure of agreement that discussions would take place with a view to long term solutions and not with a view to finding ad hoc arrangements and short term expedients such as had, up to then, been used to deal with the UK budget problem. To these Special Council sessions the United Kingdom delegation tabled three papers which form the basis of the Government's position. They would constitute a comprehensive reform of the Community based on the principles of equity and cost efficiency. These were: a safety net proposal; proposals to control agricultural expenditure; and suggestions for the development of new policies for the European Community.

The safety net proposal proposed a mechanism which would put an end to constantly recurring problems of certain Member States by ensuring a more equitable sharing of the burden of financing the Community budget. It provided that Member States whose relative prosperity in the enlarged Community was below a given level should be net beneficiaries from the Budget and not in any circumstances net contributors. Above this level there would be a limit on Member States' net budgetary burden related to its GDP and relative prosperity in the enlarged Community. (Long term proposals on the budget must take account of the likely enlargement of the Community to include Spain and Portugal.) On agriculture the British Government put forward the proposal for a strict financial guideline to achieve the objectives for agriculture put forward in the Stuttgart communique.

The strict financial guideline would ensure that the rate of increase in agricultural guarantee expenditure in any year should be less than the increase in the Community's own resources and would be embodied in the Community's budgetary procedures.

The United Kingdom's third submission to the Special Councils was addressed to the future development of the Community. In these the Government drew attention to a number of key areas in which Member States could benefit by concerted action at the Community level. These would include work to complete a truly common market for goods and services, and the need to develop more effective Community action in the fields of research, innovation and new technologies.

F) The Athens Summit

Although a great deal of detailed work was undertaken in seven Special Council sessions before the Athens Summit, agreement was not reached on a large number of critical issues. As a result, many issues of detail were left to the Summit and the Heads of State and Government were faced with a Herculean task of reconciling divergent positions on a large number of detailed matters. They did not succeed. After the Summit the Prime Minister said:

'Perhaps it is not surprising that we have had to have this meeting, at which we have not reached agreement, as a prelude to one that I hope will eventually reach agreement. (The British Government was) prepared to tackle the issues in a long term way. We believe in the relaunching of the Community, but we believe that is only going to be done by facing the fundamental issues and facing them realistically ... I am not prepared to stagger from compromise to compromise' (Athens, 6th December 1983).

G) The Brussels Summit

At the Brussels Summit on 19th-20th March progress was made towards securing control of spending by setting a maximum limit for growth of overall expenditure and by a financial guideline on agricultural expenditure. The French Presidency also proposed a lasting system for a fair sharing of the budgetary burden. In her statement to the House of Commons on 21st March 1984, the Prime Minister said:

'We would have been able to accept this system but some other Member States despite the long discussions over the last nine months, were still unable to do so.'

At the end of discussions, during which the United Kingdom made sustained efforts to reach a satisfactory compromise, the United Kingdom was invited to accept the following package:

- an ad hoc five year arrangement which would have left the United Kingdom receiving about half her net contributions, compared with the two-thirds obtained since 1980 and agreed by other Member States as reasonable. But in relative terms this would have declined as expenditure increased.
- a milk deal which affected the farmers of some Member States less than others in terms of cutting back milk production.
- an increase in own resources from 1 per cent to 1.4 per cent in 1986 with the prospect of a further increase in 1988 to 1.6 per cent.

Yet another ad hoc arrangement would certainly not be acceptable. On this the Prime Minister stated in the House of Commons:

'I made it plain that neither I nor the British Parliament could accept such a package. Therefore, I did not agree to any increase in the Community's resources. The 1 per cent VAT ceiling remains.'

H) Further Developments

A Special Foreign Affairs Council and Agricultural Council was called to tackle the budget and agriculture problems respectively and took place on March 27th. Neither Council reached agreement. In the Foreign Affairs Council discussions took place on the basis that one more year of ad hoc refunds to cover 1984 would be agreed, this to be followed by a durable and equitable arrangement for sharing budgetary burdens entering into force in 1985. The system would be based on the ability to pay measured by GDP per capita. The system would contain two main elements, a threshold and a 'ticket modérateur' (our rate of contribution to any amount above the threshold). The operation of the threshold and the 'ticket modérateur' is still for negotiation. The initial agreed threshold figure would form the basis for future years. Agreement did not prove possible on that figure. Hence the gap between 1,000 mecu (£590m) which has been proposed by some other Member States and 1,250 mecu (£737m) which the Government was prepared to accept is larger and more important than would appear at first sight. Negotiations are continuing. The Finance Ministers, on 2nd April and the Foreign Ministers on 9th/10th April

will take the issue further.

Advance Payments

The Commission requested Member States to make an advance payment of own resources for the month of April principally to pay for the UK and German refunds by the end of March. The refunds remain blocked; it is not intended that this advance payment be made as the main need for them has been removed. The Commission has now accepted that early payments are no longer required.

Own Resources

Since the Stuttgart Summit the Government has made it clear that it would be prepared to consider an increase in own resources provided that there is effective control of Community spending and a fair sharing of the budgetary burden. It has been argued that an increase in the own resources ceiling would be needed, first, because the customs levies and duties element is diminishing in real terms and secondly because some funds will be required to finance such new policies as may be agreed, which could include an increase in regional and social funds and enlargement. The Government is committed to firm control of agricultural expenditure. However, immediate reductions in expenditure (to provide room under the own resources ceiling for other foreseeable costs) cannot be made without causing immense hardship to farmers. At the Foreign Affairs Council there was further discussion of a possible increase in own resources. The possibility of an increase of the VAT ceiling to 1.4 per cent in 1986 with a possibility of a further increase in 1988 to 1.6 was discussed. These would represent an increase in today's revenues of about 25% and 40% respectively (not 40% and 60% because VAT is only one component of own resources). On own resources Sir Geoffrey Howe said in his statement on 28th March:

'That proposal (to increase the VAT ceiling) requires unanimous consent of Member States and National Parliaments. The Government have indicated their willingness to entertain this proposal, but only if there is effective control of Community spending and a fair sharing of the budgetary burden. Both these conditions remain crucial.'

I) Labour Party attitudes contrasted

The Labour Party's approach to these negotiations and to Europe is divided, contradictory and insincere:

- The Labour Party has now changed its attitude towards membership five times
- Labour's latest volte-face is dressed up with opportunistic imprecision. Mr Kinnock has called for a new Messina but he is completely vacuous about what this means. He proposes new policies which would require additional expenditure without explaining where the cuts or the money are going to come from - strikingly similar to their demands for more expenditure domestically.
- Mr Kinnock says in his 'new Messina' that we should involve Eastern Europe. Does this mean that we should form a Community with communist countries? Or is he really talking about a non-aligned Europe?

- What is Labour really proposing to do with the agricultural sector?
- Mr Kinnock proposes reflation on a Europe-wide scale. Reflation means inflation. Has Mr Kinnock not learnt the lessons of the French experience under President Mitterand, who did a U-turn on just such a reflationary package?
- Labour's track record is appalling. They failed to obtain any refunds at all during their period in office. (The Conservative Government has obtained two thirds of Britain's net contributions since 1980 - in excess of £2.5 billion).
- Labour's only attempt at serious negotiation with our Community partners, in 1975, was a complete failure. On the central question of budgetary imbalances, the Labour Party myopically agreed to a mechanism which would only come into effect in the event of a balance of payments crisis. This would hardly be likely in the late 1970s and early 1980s in view of the balance of payments benefits of North Sea Oil, major discoveries of which had already been made. Moreover, payments under this so-called 'corrective mechanism' would be related to the gross contribution rather than the net contribution. This would neglect the UK's relatively small receipts from the budget, the major source of the budgetary imbalances.
- Nor is Mr Owen less culpable. As Foreign Secretary in 1979 he permitted our net budgetary contributions to get out of all control, reaching £1.2 billion for that year (worth nearly £2 billion in today's money).

020

CC/NO

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Prime Minister

A.S.C. 20/3

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

30 March 1984

A J Coles Esq
Private Secretary
10 Downing Street

ms

Dear John

ADVANCE OF COMMUNITY OWN RESOURCES

The Chancellor is not in the office today, but I am sure he would like the Prime Minister to know the background to the Commission's withdrawal, yesterday, of their request for an advance on 30 March. As you know, this is now public knowledge.

The Commission's explanation for this change is that the forecast shortfall (excluding refunds which they have at no stage included in their figuring) is less than expected. Expenditure is less than expected and revenue greater, so that the deficit that was originally expected to be 619 mecu is now expected to be 235 mecu at end-March. This can easily be covered by the Commission's postponement of agricultural payments.

3. This news clearly confirms the government's conclusion that without UK and German refunds being paid there was no need for an advance today. Our press line will be that, like the invitation itself, the withdrawal of an invitation to make an advance is a matter for the Commission. The Government's reaction to the request has already been made clear. The Economic Secretary will be writing formally to Terence Higgins, as Chairman of the Treasury Committee, and will be informing the House by way of an arranged PQ early next week.

Copies of this letter go to Roger Bone (FCO) and David Williamson (Cabinet Office).

Yours sincerely
David Peretz

D L C Peretz



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign &
Commonwealth Affairs
Foreign and Commonwealth Office
LONDON SW1A 2AH

30 March 1984

N.B.P.R.

A.J.C. 2/4.

Dear Geoffrey

The French Presidency intends to take only one item of shipping business at the 10 May Transport Council: a draft resolution on unfair commercial practices in shipping.

This resolution would call on the Commission to prepare a draft regulation for consideration by the Council and give guidance on what that regulation should say. What the French have in mind is akin to an anti-dumping regulation for shipping. Where non-conference lines from third countries are offering abnormally low freight rates, the French consider that the Community should have the power to impose a compensating levy. The levy could also be imposed when such carriers offered a limited or irregular service.

I am afraid that the French proposal, as currently drafted, is potentially very dangerous. It is a central tenet of UK shipping policy that there must be no barrier to free competition between conference and non-conference lines. Conferences are cartels and would, in the absence of competition, offer UK exporters and importers a lower

quality of service at a higher price. The French proposal would greatly inhibit the ability of non-conference lines to compete on price, which is the only area in which they have any hope of competing.

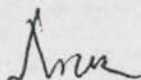
Accordingly, the French text must be either redrafted or rejected. I should prefer to attempt to redraft it.

There is no doubt that there is unfair competition in shipping from subsidised and state-controlled carriers, particularly Soviet carriers. Where, in a small number of cases, this competition comes from Community carriers, I believe that the Commission should be acting against it under Treaty Articles 92 and 93. Where it comes from non-Community carriers, I see a good case for the imposition of a compensatory levy sufficient to offset the unfair competitive advantage. Such a levy might be imposed by the Council acting by qualified majority on the basis of a proposal from the Commission; it would be used when a Commission investigation established that there was unfair competition from a subsidised or state-controlled carrier and that this unfair competition was materially damaging a Community carrier. The levy would not be restricted to non-conference lines, but would be available to deal with unfair competition from any type of carrier. Although the scope of application of this approach would be wider than that of the French proposal it would focus more narrowly on those practices which cause problems for our shipping without encroaching on matters of a purely commercial nature. Such an approach should also be attractive to those member states which share our open market approach to shipping and which have already expressed concern about the French proposal.

I understand that officials have discussed this in EQO and concluded that amending the French proposal in the way I have suggested is the right line for the UK to take on both tactical and policy grounds. They have also looked at the implications for Community competence and concluded that this is an area where we might profitably cede competence to the Community, provided we take care to define very carefully the scope of the competence transferred and are satisfied that the machinery for imposing the levy is workable.

Officials are already working on ways of amending the French text along the lines I have suggested and I propose that they should table these amendments at the next relevant meeting of the Council's Transport Working Group.

I am copying this to the Prime Minister, other members of OD(E) and to Sir Robert Armstrong.



NICHOLAS RIDLEY

European Parliament

The Vice-President

Dear Prime Minister,

The resolution of Mr. Haughey on
Northern Ireland was adopted today in the
European Parliament, 124 for - 3 against, 63 abstentions
(EDG - with an at least voting for the resolution).

I believe the resulting text is not damaging

Prime Minister.

A.J.C. 30/3.

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Ref.A084/985

PRIME MINISTER

Cabinet: Community Affairs

You have already discussed in OD this morning the results of the Foreign Affairs Council on 27 March and the Agriculture Council on 26-27 March.

2. The Foreign and Commonwealth Secretary will wish, however, to report to Cabinet on the Foreign Affairs Council of 27 March which did not reach agreement on the correction of the Community's budget burden on the United Kingdom. The discussion concentrated on the fair sharing of the budget burden and dealt both with the system and its base figure. It was usefully agreed that the ad hoc rebate of 1,000 million ecu will now be for one year (1984) only with the revised system coming into effect thereafter. This meets the position you took in the European Council. It was also agreed by all member states that there must be a reformed system of financing included in the own resources decision. No-one, however, made a move on the base figure, and so the gap remains between the 1,000 million ecu on offer at the European Council and the 1,250 million ecu which you have indicated we could accept. The Commission are now likely to come forward with some proposal on the starting figure for the new system, after discussion in the Finance Council on 2 April, in preparation for the Foreign Affairs Council on 9-10 April, which may still formally be considered a continuation of the work of the European Council. The Commission has promised to be in touch with us before they make any ideas public.

3. You may wish to draw out two points in the Cabinet -

(i) we should not be misled by the presentation in Brussels which is on the lines that the United Kingdom is rejecting concessions by nine other member states. The fact is that other member states are demanding a change in the basic financing Decision of the Community by increasing the VAT resources of the Community. Their demand is equivalent to a change in the Treaty and requires the unanimous agreement of member states

and their Parliaments. The United Kingdom Government has indicated that it is ready to consider their demand for a fundamental change if there is effective control of Community expenditure and a fair sharing of the budget burden;

(ii) the base figure in the system is of real importance because it establishes in effect the limit on the United Kingdom's net contribution over the foreseeable future. The difference of 250 million ecu on 1983 figures would be substantially greater in later years.

4. The Minister of Agriculture, Fisheries and Food will wish to report on the Agriculture Council of 26-27 March. The discussions were largely devoted to the Irish Republic's milk quota. He made a determined effort to get a proposal for a continuation of the beef variable premium. The Council is to reconvene on 30-31 March in a further effort to reach a settlement before the 31 March deadline (end of marketing year for some major agricultural products).

5. You decided on the immediate steps that needed to be taken in your OD discussion, when it was agreed that we should not meet the Commission's current request for an advance of own resources and that, in presenting the outcome of the Special Foreign Affairs Council to the House of Commons, the Foreign and Commonwealth Secretary should adhere on withholding to the line you took after the European Council. He would also make it clear that the United Kingdom was not the supplicant in these negotiations.

6. There was also a Transport Council on 22 March at which the United Kingdom was represented by the Parliamentary Under Secretary of State, Department of Transport, Mr Mitchell. No decisions were taken requiring a report to Cabinet.

Note.
G.R.
I.R.C.

7. The Agriculture Council will meet on 30 March and the Finance Council on 2 April, and there will be informal meetings of Transport Ministers on 2 April and of Social Affairs Ministers on 5 April.

RIA

ROBERT ARMSTRONG

28 March 1984

CONFIDENTIAL

Qz.03649

MR COLES

FAIR SHARING OF THE COMMUNITY BUDGET BURDEN

The Council of Ministers (Foreign Affairs) did not reach agreement on the correction of the Community's budget burden on the United Kingdom. The Foreign and Commonwealth Secretary made no concessions whatever. Despite the difficult atmosphere in which the meeting ended, it is very probable that we shall keep two concessions made by other member states -

(1) the ad hoc rebate of 1000 million ecu will now be for one year (1984) only and the revised system will come into effect thereafter. This is the position taken by the Prime Minister in the European Council and is a clear financial advantage for the United Kingdom by comparison with the offers made by other member states last week;

(2) all member states, including Italy, explicitly accepted that there must be a reformed system of financing to be included in the revised own resources decision.

2. Between now and the next meeting of the Council of Ministers (Foreign Affairs) on 9-10 April, the Commission will almost certainly come up with some proposal on the starting figure (the X in the Presidency paper) for the new system. They have promised to be in touch with us before they make any ideas public.

3. I am sending copies to Roger Bone (FCO), John Kerr (Treasury) and to Sir Robert Armstrong.

DF Williamson

D F WILLIAMSON

28 March 1984

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CONFIDENTIAL [FRAME GENERAL/ECONOMIC]

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1130 OF 28 MARCH 1984

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A & C. 22/3
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MIPT

BUDGETARY IMBALANCES

1. I SPOKE TO LEVER THIS MORNING (IN TUGENDHAT'S ABSENCE IN STRASBOURG) TO PUT HIM IN THE PICTURE AND TO FIND OUT WHAT WAS LIKELY TO HAPPEN IN THE COMMISSION OVER THE NEXT FEW DAYS.
2. HE SAID THAT THE COMMISSION MEETING IN STRASBOURG THIS MORNING WOULD CONCENTRATE ON AGRICULTURE. THERE WOULD BE NO FORMAL CONSIDERATION OF BUDGET IMBALANCES. IT WAS UNCLEAR HOW THINGS WOULD DEVELOP. DAVIGNON WAS CLEARLY DETERMINED TO GET HIMSELF INTO THE MIDDLE OF THE DISCUSSION AND THIS MIGHT ALTER THE WAY THE COMMISSION WOULD WORK. HE UNDERTOOK TO KEEP IN STILL CLOSER TOUCH THAN USUAL.
3. HE WAS ABLE TO AMPLIFY A LITTLE WHAT DAVIGNON SAID TO ME ABOUT THE COSTS OF ENLARGEMENT (PARA 21 OF MY TELNO 1125). DAVIGNON WAS ARGUING THAT THERE WOULD IN ANY CASE HAVE TO BE SPECIAL ARRANGEMENTS IN THE FIRST FEW YEARS AFTER ENLARGEMENT. SINCE CAP AND OTHER EXPENDITURE IN SPAIN AND PORTUGAL WOULD BE RELATIVELY LOW, THEIR GROSS CONTRIBUTIONS WOULD ALSO HAVE TO BE LOW. THEY CERTAINLY COULD NOT BE EXPECTED TO CONTRIBUTE IN 1986 TO THE UK'S 1985 REFUND. IT MIGHT HELP TO REASSURE THE FRENCH AND SOME OTHER MEMBER STATES IF THERE WERE SOME SPECIAL ARRANGEMENT FOR FINANCING ANY NET COSTS OF ENLARGEMENT IN THE VERY EARLY YEARS. LEVER ARGUED THAT THIS COULD BE IN OUR INTERESTS IF SPAIN AND PORTUGAL'S NET BENEFITS WERE TO BE LOW IN THOSE YEARS.
4. I ALSO SPOKE TO DAVIGNON'S CABINET. HE HAS TO REMAIN IN STRASBOURG FOR MOST OF TO-MORROW BECAUSE IT IS DISCUSSING REPORTS AFFECTING HIS PORTFOLIOS. I HAVE ARRANGED TO TALK TO HIM ON THE TELEPHONE LATER TODAY.

FCO ADVANCE TO:

FCO - PS: TICKELL: HANNAY: WALL

CAB - WILLIAMSON: STAPLETON: DURIE

TSY - UNWIN

BUTLER

[ADVANCED AS REQUESTED]

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ADVANCE ADDRESSEES

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PERSONAL

A Message from
DAVID WILLIAMSON

MR COLES

✓ A.S.C. 28/3

k.a.

The attached would be in line with the comments of the Chancellor of the Exchequer and the Secretary of State for Trade and Industry at this morning's OD meeting, which I think that the Prime Minister supported.

28 March 1984

David Williamson
28/3/84



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 7256

Qz.03650

28 March 1984

Stephen Wall Esq MVO
Foreign and Commonwealth Office
London SW1

Dear Stephen,

FOREIGN AFFAIRS COUNCIL: STATEMENT IN THE HOUSE

Thank you for your letter of today. In the light of the discussion in OD this morning I suggest that you might wish to include at the beginning of paragraph 3 sentences on these lines:-

"I would remind the House that the main question at issue is the demand of other member states to change the Community's basic financing Decision by increasing the ceiling on the VAT resources of the Community. Their demand is equivalent to a change in the Treaty and requires the unanimous agreement of member states and their Parliaments. The United Kingdom Government has indicated that it is ready to consider their demand for a fundamental change if there is effective control of Community expenditure and a fair sharing of the budget burden."

Yours sincerely,

D F Williamson

D F WILLIAMSON

cc: Sir Crispin Tickell) FCO
Mr Hannay)
Mr Unwin, H M Treasury
Sir Robert Armstrong
Mr Stapleton
Mr Durie

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<p><u>CABINET OFFICE</u> MR D WILLIAMSON MR STAPLETON MISS S J LAMBERT MR DUNN MR PEARSON</p>	<p><u>D O T</u> 1310 MR R GRAY MR R WELLS (WEG)</p>	<p><u>FILES OF</u> MR KENT HM. CUSTOMS & EXCISE</p>
<p><u>HM TREASURY</u> MR J G LITTLE MR J B UNWIN MISS JE COURT MR NORTHAM MR FITZGERALD</p>	<p><u>M A F F</u> PS SECRETARY MR FRANKLIN MR ANDREWS</p>	<p>MR COLES No. 10.</p>

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MIPT FOREIGN AFFAIRS COUNCIL 27 MARCH 1984

DETAIL (SUMMARY IN MIPT)

1. CHEYSSON (CHAIRMAN) OPENED THE DISCUSSION OF THE NEXT STEPS FOLLOWING THE EUROPEAN COUNCIL BY PROPOSING THAT THE FOREIGN AFFAIRS COUNCIL SHOULD CONCENTRATE ITS WORK AS FOLLOWS. FIRST, THE FOREIGN AFFAIRS COUNCIL SHOULD LOOK AT THE POINTS WHERE THERE WAS NO AGREEMENT. WHERE THERE WAS AGREEMENT, THE POINTS SHOULD BE REMITTED TO THE SPECIALISED COUNCILS ON THE BASIS OF THE TEXTS WHICH HAD BEEN IN FRONT OF THE EUROPEAN COUNCIL. THERE HAD BEEN VERY STRONG REACTIONS IN THE COMMUNITY TO THE FAILURE TO AGREE LAST WEEK. THE DIFFICULTIES WOULD INCREASE. IF THE FOREIGN AFFAIRS COUNCIL COULD NOT TAKE POSITIVE STEPS NOW, IT WOULD NOT BE POSSIBLE TO SAY THAT THESE STEPS WERE THE CONCLUSIONS OF THE EUROPEAN COUNCIL. NEW DEMANDS WOULD BE MADE. THE BASIC PRINCIPLE OF THE PRESIDENCY IN DISCUSSION WOULD BE THAT THERE SHOULD BE NO CHANGES IN THE TEXTS WHICH WERE BEFORE THE EUROPEAN COUNCIL IN ITS FINAL STAGES.

2. DURING THIS INTRODUCTION, THE PRESIDENCY DISTRIBUTED SIX DRAFT RESOLUTIONS OF THE COUNCILS (BY BAG TO ECD(1), BASED ON THE 20 MARCH (1700) VERSION OF THE DRAFT EUROPEAN COUNCIL CONCLUSIONS (WHICH WERE IN FACT BARELY DISCUSSED.) THEY COVERED NEW POLICIES,

(WHICH WERE IN FACT BARELY DISCUSSED.) THEY COVERED NEW POLICIES, STRUCTURAL FUNDS, CAP (COMMERCIAL POLICY), OWN RESOURCES AND ENLARGEMENTS, BUDGETARY DISCIPLINE AND "CERTAIN CASH DIFFICULTIES IN 1984". THERE WAS NO NEW TEXT ON BUDGETARY IMBALANCES.

3. YOU SAID THAT THE FIRST PRIORITY MUST BE TO CONSOLIDATE THE GROUND WHICH HAD BEEN MADE SINCE THE EUROPEAN COUNCIL AT ATHENS. THE SECOND PRIORITY SHOULD BE TO TRY TO MAKE DECISIVE PROGRESS BEYOND THE POINT REACHED IN THE EUROPEAN COUNCIL LAST WEEK AND, IF POSSIBLE, TO BRING MATTERS TO A CONCLUSION. THE NOTES FROM WHICH YOU SPOKE ARE IN MY IMMEDIATE FOLLOWING TELEGRAM.

4. GENSCHER (GERMANY) SAID THAT GERMANY ENVISAGED NO MODIFICATIONS AT ALL IN THE DOCUMENT WHICH HAD BEEN AVAILABLE AT 1700 HOURS ON 20 MARCH IN THE EUROPEAN COUNCIL. HE RECOMMENDED THAT THE DISCUSSION SHOULD NOW MOVE STRAIGHT TO THE CENTRAL PROBLEM OF THE BRITISH BUDGET REFUNDS.

5. AT THIS POINT PANGALOS (GREECE) MADE A FULL STATEMENT STRESSING THAT ALL ISSUES WERE OPEN AND IMPLYING THAT THE TEXT, IN PARTICULAR ON STRUCTURAL POLICIES AND INTEGRATED MEDITERRANEAN PROGRAMMES, WAS NOT SATISFACTORY. IN PARTICULAR, HE SAID THAT INTEGRATED MEDITERRANEAN PROGRAMMES WOULD HAVE TO BE ADOPTED DURING 1984 AND IT WAS QUITE WRONG TO SAY THAT THESE PROGRAMMES WERE TO BE FINANCED FROM MONEY AVAILABLE IN THE STRUCTURAL FUNDS. IT WAS QUITE CLEAR IN GREECE'S VIEW THAT THERE MUST BE ADDITIONAL FINANCING FOR INTEGRATED MEDITERRANEAN PROGRAMMES AND A NEW PARAGRAPH MUST BE INCLUDED IN THE TEXT. CHEYSSON REITERATED THAT THERE WAS TO BE NO CHANGE IN THE BASIC TEXTS BUT THAT A GREEK STATEMENT COULD BE INCLUDED IN THE MINUTES. HE WOULD BE WILLING, HOWEVER, TO SUGGEST A SHORT PROCEDURAL CONCLUSION ABOUT THE FURTHER HANDLING OF THE IMPS. GENSCHER SAID THAT HE COULD NOT ACCEPT THAT INTERPRETATIONS WOULD BE READ INTO THE TEXT. THE TEXT MUST STAND.

6. YOU STRESSED THAT ALL THE CONCLUSIONS MUST BE SUBJECT TO THE GENERAL RESERVE WHICH REQUIRED THAT ALL DECISION MUST BE TAKEN AS A PACKAGE. YOU DREW ATTENTION TO TWO POINTS ON THE TEXTS DISTRIBUTED AT THIS MEETING. THE FIRST PARAGRAPH OF THE NEW "RESOLUTION" ON BUDGETARY DISCIPLINE SHOULD REFER TO "IN THE FRAMEWORK OF THEIR RESPECTIVE POWERS". THE UNITED KINGDOM ALSO TOOK THE VIEW THAT THE SECOND INDENT OF PARAGRAPH 2 ON BUDGETARY DISCIPLINE SHOULD REFER TO PROVISIONS "ON THE BASIS OF THE " COMMISSION DOCUMENT ON FINANCIAL GUIDELINES.

7. THE REMAINDER OF THE MORNING WAS SPENT ON A DISCUSSION OF THE QUESTION OF BUDGETARY IMBALANCES. GENSCHER SAID THAT, ALTHOUGH CHANCELLOR KOHL HAD MADE SOMEWHAT DIFFERENT PROPOSALS IN THE EUROPEAN COUNCIL, HE WISHED TO EMPHASISE THAT THE GERMANS WANTED TO SEE THE REVISED SYSTEM IN EFFECT AS EARLY AS POSSIBLE, WHICH WOULD BE IN LINE WITH THE VIEWS OF THE EUROPEAN PARLIAMENT. HE WAS THEREFORE READY TO PROPOSE THAT THERE SHOULD BE AN AD HOC REBATE FOR THE UNITED KINGDOM OF 1000 MILLION ECU FOR ONE YEAR ONLY: GERMANY WOULD CONTRIBUTE TWO-THIRDS OF ITS NORMAL SHARE TO THIS REBATE. THEREAFTER THE NEW SYSTEM, AS PROPOSED IN THE PRESIDENCY DOCUMENT, WOULD BE IN EFFECT. THE BASIC FIGURE WITHIN THE SYSTEM WOULD BE A REBATE OF 1000 MILLION ECU. GERMANY COULD ACCEPT THAT

DOCUMENT, WOULD BE IN EFFECT. THE BASIC FIGURE WITHIN THE SYSTEM SHOULD BE A REBATE OF 1000 MILLION ECU. GERMANY COULD ACCEPT THAT THIS WOULD BE RELATED TO EITHER 1983 OR 1984 AS THE REFERENCE YEAR.

8. YOU THOUGHT IT WAS ONLY ON THE BASIS OF EARLY INTRODUCTION OF THE SYSTEM THAT THE MATTER COULD BE RESOLVED. IT WOULD BE A STEP FORWARD IF THE COMMISSION COULD AGREE ON THE DATE OF ENTRY INTO FORCE OF THE CORRECTIVE MECHANISM IN THE PRESIDENCY PAPER. THE UNITED KINGDOM WOULD LIKE IT TO HAPPEN IMMEDIATELY. THE NEW OWN RESOURCES DECISION WOULD ENTER INTO FORCE ON 1 JANUARY 1986 AT THE LATEST. THE CORRECTIVE MECHANISM WOULD FORM PART OF THE DECISION, AS THE TEXT STATED. IT WOULD NOT BE POSSIBLE TO TELL OUR PARLIAMENT THAT THE INCREASE IN OWN RESOURCES WOULD COME INTO FORCE WITHOUT THE CORRECTIVE MECHANISM DOING SO AT THE SAME TIME. THAT WAS WHY OUR FINAL COMPROMISE PROPOSAL OF LAST TUESDAY OF ONE AD HOC YEAR BEFORE THE CORRECTIVE MECHANISM ENTERED INTO FORCE WAS AS FAR AS WE COULD GO. THE 1984 COMPENSATION WOULD THEN BE PAID IN 1985 ON AN AD HOC BASIS. THE 1985 COMPENSATION WOULD BE DEDUCTED FROM OUR VAT CONTRIBUTION IN 1986 WHEN THE NEW OWN RESOURCES DECISION WOULD BE IN PLACE. IF AGREEMENT COULD BE REACHED ON THIS THERE WOULD THEN REMAIN ONLY THE FIGURE TO BE INSERTED IN THE LAST PARAGRAPH OF THE TEXT.

9. TURNING TO THE FIGURES, YOU WENT THROUGH THE SEQUENCE OF DISCUSSION IN THE EUROPEAN COUNCIL. AT AN EARLY STAGE PRESIDENT MITTERRAND HAD SUGGESTED A REFUND OF 1000 MILLION ECU BUT ADDED THAT HE PERSONALLY COULD ENVISAGE GOING TO 1100 MILLION ECU. THE PRIME MINISTER HAD REPEATED HER VIEW THAT A NET CONTRIBUTION FOR THE UNITED KINGDOM OF 4-500 MILLION ECU WOULD BE REASONABLE. THE UNITED KINGDOM HAD THEN MADE TWO IMPORTANT CONCESSIONS. WE HAD AGREED TO WORK ON THE BASIS OF THE VAT SHARE/EXPENDITURE SHARE GAP AS PROPOSED BY THE PRESIDENCY, THUS REDUCING THE APPARENT GAP BY 330 MILLION ECU ON THE AVERAGE OF THE LAST FIVE YEARS. WE HAD THEN PUT FORWARD A FIGURE FOR THE REFUND OF 1322 MILLION ECU. THE OTHER DELEGATIONS HAD STUCK AT 1000 MECU. AS A FINAL EFFORT AT COMPROMISE, THE PRIME MINISTER PROPOSED THAT THERE SHOULD BE A 1000 MECU AD HOC REFUND FOR ONE LAST YEAR FOLLOWED BY THE INTRODUCTION OF THE CORRECTIVE MECHANISM ON THE BASIS OF A REFUND FIGURE OF 1250 MILLION ECU. THE OTHER DELEGATIONS STUCK AT 1000 MECU.

10. VAN DEN BROEK (NETHERLANDS) SAID THAT HE COULD GO ALONG WITH THE REVISED GERMAN PROPOSAL BUT CONSIDERED THAT THE FIGURE OF 1000 MILLION ECU WAS AN ABSOLUTE MAXIMUM. OTHER DELEGATIONS HAD MADE MAJOR CONCESSIONS BY AGREEING TO INCLUDE THE REVISED SYSTEM AS AN INTEGRAL PART OF THE NEW OWN RESOURCES DECISION. ANDREOTTI (ITALY) SAID THAT THE CORRECTIVE MECHANISM MUST BE INCORPORATED IN THE CHANGE IN THE SYSTEM AND THEREFORE SUBMITTED TO PARLIAMENTS. HE DID NOT LIKE THE CHANGES WHICH WERE BEING PROPOSED, BUT HE COULD ACCEPT THE INTRODUCTION OF THE REVISED SYSTEM AND THE FIGURE OF 1000 MILLION ECU SUGGESTED BY GERMANY. BOTH TINDEMANS (BELGIUM) AND MME. FLESCHE (LUXEMBOURG) SUPPORTED THE GERMANS' REVISED PROPOSAL ALTHOUGH, THEY BOTH ENTERED RESERVES ABOUT THE REFERENCE TO ADMINISTRATIVE EXPENDITURE "CHARGED TO EACH MEMBER STATE IN ACCORDANCE WITH THE PRESENT FORMULA".

ACCORDANCE WITH THE PRESENT FORMULA''.

11. DUMAS (FRANCE) SAID THAT HE COULD RALLY TO THE SOLUTION PUT FORWARD BY GENSCHER. THE SYSTEM COULD ONLY BE SEEN IN THE CONTEXT OF A PACKAGE. THERE MUST BE FULL AGREEMENT OR NONE AT ALL. HE COULD ALSO ACCEPT THE FIGURE OF 1000 MILLION ECU WHICH HAD BEEN PUT FORWARD. BARRY (IRELAND) SAID THAT HE EXPECTED TO BE ABLE TO GO ALONG WITH THE GERMAN PROPOSAL BUT EMPHASISED THAT HE WAS MAINTAINING A GENERAL RESERVE UNTIL THERE WAS AGREEMENT FOR IRELAND IN THE MILK SECTOR.

12. IN SUBSEQUENT DISCUSSION A NUMBER OF MEMBER STATES TRIED TO RELATE THE FIGURE OF 1000 MILLION ECU NOT TO 1983 AS THE REFERENCE YEAR (AS IN THE PRESIDENCY TEXT) BUT TO 1984. YOU STRESSED THAT THIS WOULD BE IMPOSSIBLE AS WE HAD TO BASE THE CONSTRUCTION OF A SYSTEM OF KNOWN FIGURES AND THE PRESIDENCY TEXT REQUIRED THE DRAFTING OF THE SYSTEM TO BE INCLUDED IN THE REVISED OWN RESOURCES DECISION TO GO AHEAD IN TIME FOR APPROVAL IN JUNE. THE PRACTICAL ARGUMENT WAS SUPPORTED BY THORN (COMMISSION).

13. THE MORNING SESSION CONCLUDED WITH GENERAL AGREEMENT THAT THE AD HOC ARRANGEMENTS (ONE YEAR AT A FIXED REBATE OF 1000 MILLION ECU) WERE ACCEPTABLE AND WITH A WIDE MEASURE OF AGREEMENT THAT THE BASE FIGURE FOR THE REVISED SYSTEM WHICH WOULD COME INTO EFFECT IMMEDIATELY THEREAFTER WOULD BE BY REFERENCE TO 1983. THERE WAS, HOWEVER, NO CHANGE IN THE UNITED KINGDOM SUGGESTION THAT THE BASE FIGURE SHOULD BE 1250 MILLION ECU ON THE ONE HAND AND THE VIEW OF OTHER MEMBER STATES THAT THE FIGURE SHOULD BE 1000 MECU.

14. DISCUSSION AT MINISTERIAL LUNCH DID NOT ADVANCE MATTERS. OTHER MINISTERS PRESSED YOU TO MAKE FURTHER MOVES TOWARDS THEIR POSITION. CHEYSSON OPENED BY NOTING THAT THE SUGAR PROTOCOL HELPED THE UK, THAT IRELAND DID TOO WELL ON MILK AND THAT OTHER SUCH BENEFITS MEANT THAT NET CONTRIBUTIONS WERE NOT THE RIGHT MEASURE OF THE PROBLEM. BUT TWO COUNTRIES PAID MORE THAN OTHERS. HE ACCUSED THE UK, BY ITS REMARKABLE OBSTINACY, OF TRYING TO IMPOSE ON OTHER MEMBER STATES A NEW AND FUNDAMENTAL FEATURE OF THE TREATY, WHICH NONE WERE PREPARED TO ACCEPT. GENSCHER, REFERRING TO A DEBATE IN THE BUNDESTAAG TOMORROW, SAID HE HAD MORE SCOPE TO NEGOTIATE TODAY THAN HE WOULD HAVE IN FUTURE. CHEYSSON SAID THAT 1,000 MECU ON THE BASIS OF 1983 REPRESENTED A LARGER FIGURE IN 1985 AND PRESUMABLY EVEN MORE IN LATER YEARS. MME FLESCH SAID GERMANY HAD MADE BIG CONCESSIONS, AS HAD THE OTHER EIGHT. ANDREOTTI URGED THE UK TO MOVE.

15. IN RESPONSE TO THESE AND SIMILAR INTERVENTIONS YOU REPEATEDLY STRESSED THE MOVES THAT THE UK HAD MADE AT THE EUROPEAN COUNCIL.

16. CHEYSSON CONCLUDED THAT THERE WAS LITTLE LEFT TO DISCUSS OVER LUNCH. ASSUMING THAT THE COUNCIL COULD NOT MAKE PROGRESS IN THE AFTERNOON, IT SHOULD BE TERMINATED. THE QUESTION WAS WHETHER THIS SHOULD BE CONSIDERED THE END OF THE EUROPEAN COUNCIL PROCESS, OR, AS WITH THE AGRICULTURE COUNCIL, AN ADJOURNMENT. SHOULD THE COUNCIL ADJOURN TO 9/10 APRIL, OR WAS THIS THE BREAK?

ADJOURN TO 9/10 APRIL, OR WAS THIS THE BREAK?

17. CHEYSSON OPENED THE AFTERNOON SESSION BY SAYING THAT NINE MEMBER STATES HAD MADE CONCESSIONS. THEY HAD MOVED TO AN AD HOC UK REFUND OF 1,000 MILLION ECU FOR ONE YEAR ONLY BEFORE BRINGING IN THE SYSTEM WITHIN A REVISED OWN RESOURCES DECISION. THEY HAD BASED THEMSELVES ON THE REFERENCE YEAR 1983 FOR THE FIGURE AT THE OUTSET OF THE SYSTEM. IT WAS NOW UP TO THE UNITED KINGDOM TO MOVE.

18. YOU SAID THAT WE WISHED TO REACH AN AGREEMENT. WE RECOGNISED THAT OTHER MEMBER STATES HAD MADE A STEP TODAY. IT WAS TO BE EXPECTED THAT OTHER MEMBER STATES WOULD CONCENTRATE ON THE SIZE AND FUTURE INCREASES IN THE UK'S REFUND. AS FAR AS THE UK WAS CONCERNED, WE WERE BOUND TO CONCENTRATE ON THE INCREASING SIZE OF OUR CONTRIBUTION. FOR THIS REASON WE COULD NOT REGARD THE SUGGESTION OF 1,000 MILLION ECU (ON 1983 FIGURES) AS SUFFICIENT FOR THE OUTSET OF THE SYSTEM. WE WOULD BE WILLING TO CONTINUE DISCUSSIONS NOW, HOWEVER, WITH A VIEW TO REACHING AGREEMENT.

19. CHEYSSON THEN PRESSED THE UK TO GIVE A SPECIFIC FIGURE AND YOU SAID THAT YOU RECOGNISED HOW DIFFICULT IT WAS FOR BOTH THE NINE MEMBER STATES AND THE UK TO MOVE FROM THE FIGURES WHICH HAD BEEN ADVANCED EARLIER. IN THESE CIRCUMSTANCES, YOU WONDERED WHETHER THE COMMISSION MIGHT NOT BE WILLING TO DISCUSS WITH DELEGATIONS AND TAKE A VIEW DURING A BREAK IN THE COUNCIL'S WORK.

20. AFTER THE END OF THE RECESS THORN ASKED TO SEE YOU OUTSIDE. HE WANTED TO KNOW WHETHER WE WOULD BE INTERESTED IN A PROPOSAL FOR X TO BE 1100 MILLION ECU ON THE BASIS OF RELATIVE PROSPERITY IN A COMMUNITY OF 10. YOU SAID THAT THIS WOULD BE A MAJOR COMPLICATION. YOU DOUBTED IF THE RELATIVE PROSPERITY LINE COULD BE DRAWN IN SUCH A WAY AS TO PRODUCE AN ACCEPTABLE RESULT. IT WOULD BE BETTER FOR THE COMMISSION TO TAKE A FEW DAYS AND CONSULT.

21. RUMOURS STARTED TO RUN THAT YOU HAD REFUSED ANY FIGURE BETWEEN 1250 AND 1000. I WENT TO DAVIGNON AND THORN AND SET OUT OUR UNDERSTANDING OF THIS CONVERSATION. DAVIGNON CAME BACK TO ME AND CLAIMED THAT THORN HAD NOT BEEN SUPPOSED TO SPEAK AS REPORTED. THE COMMISSION WOULD BE PREPARED TO EXPLORE THE POSSIBILITY OF X BEING 1100 ON THE BASIS OF THE 1983 FIGURES, WITH RELATIVE PROSPERITY IN A COMMUNITY OF 12, PROVIDED THAT THE UK BORE ITS FAIR SHARE OF THE COSTS OF ENLARGEMENT. I SAID THAT I WOULD REPORT. AS FAR AS THE LAST POINT WAS CONCERNED, THE PRESIDENCY TEXT MADE IT CLEAR THAT THE COST OF ENLARGEMENT WOULD BE TAKEN CARE OF BY THE THRESHOLD AND THE TICKET MODERATEUR. DAVIGNON SAID THE COMMISSION WOULD REFLECT FURTHER.

22. WHEN THE COUNCIL RESUMED THORN SAID HE COULD NOT SEE THE POSSIBILITY OF PROPOSING A SOLUTION WHICH WOULD FIND AGREEMENT TODAY. THERE WERE, HOWEVER, SOME POINTS OF PROGRESS WHICH WOULD ALLOW HIM TO TRY IF THERE WERE A FURTHER MEETING IN ABOUT 10 DAYS TIME. THIS ANNOUNCEMENT BY THORN WAS GREETED WITH DISMAY BY THE MAJORITY OF DELEGATIONS. CHEYSSON LAUNCHED INTO A LONG STATEMENT OF THE WAY IN WHICH NINE MEMBER STATES HAD TAKEN CONSIDERABLE STEPS TOWARDS THE

DELEGATIONS. CHEYSSON LAUNCHED INTO A LONG STATEMENT OF THE WAY IN WHICH NINE MEMBER STATES HAD TAKEN CONSIDERABLE STEPS TOWARDS THE UK'S POSITION WHEREAS THE UK DELEGATION HAD MADE NO CONCESSIONS. THE FICTION THAT THE QUESTIONS AT ISSUE WERE STILL THE DECISIONS OF THE EUROPEAN COUNCIL BECAME MORE AND MORE DIFFICULT TO SUSTAIN. IN A TABLE-ROUND AT THE INVITATION OF CHEYSSON, MOST DELEGATIONS REGRETTED THAT IT HAD NOT BEEN POSSIBLE TO MAKE PROGRESS AND THAT THE CONSEQUENCES OF FAILURE COULD BE EVEN WORSE IN THE FUTURE. GENSCHER SAID THAT IT REMAINED THE GERMAN POSITION THAT THE PACKAGE SHOULD BE KEPT TOGETHER AND THAT THE NEGOTIATION WAS NOT OVER. NONETHELESS HIS OWN MARGIN OF NEGOTIATION WOULD BE REDUCED IN THE FUTURE AND HE SHOULD MAKE CLEAR THAT HE MIGHT BE REQUIRED TO TAKE UP A POSITION WHICH WENT LESS FAR THAN HE HAD GONE TODAY. CHRISTOPHERSEN (DENMARK) AND TINDEMANS (BELGIUM) TOOK A SIMILAR LINE.

23. YOU SAID THAT YOU REGRETTED THAT THE SITUATION APPEARED TO BE A 9 TO 1 POSITION. YOU WERE GLAD TO NOTE WHAT GENSCHER HAD SAID ABOUT KEEPING THE PACKAGE TOGETHER. IT HAD ALSO BEEN SUGGESTED THAT THE COMMISSION MIGHT STILL BE ABLE TO MAKE SOME FURTHER WORK TOWARDS A SATISFACTORY CONCLUSION AND YOU THOUGHT THAT THE COUNCIL SHOULD RESUME IN 9 OR 10 DAYS TIME. IT WAS TRUE THAT THE FIGURE FOR THE UK REFUND (THE X IN THE PRESIDENCY DOCUMENT) WAS THE PRINCIPAL ISSUE, BUT THERE WERE COMPONENTS OF THIS FIGURE WHICH THE COMMISSION MIGHT ALSO WISH TO EXAMINE AND TAKE INTO ACCOUNT. THE NATURE OF THE DECISIONS REQUIRED WAS VERY IMPORTANT AND IT WAS ESSENTIAL TO GET THEM RIGHT. VAN DEN BROEK (NETHERLANDS) SAID THAT THE FAILURE CAST DOUBT OVER THE CREDIBILITY OF THE COUNCIL. IT WAS DIFFICULT TO SEE HOW WE COULD COME CLOSER TOGETHER - AND NOT ONLY ON THIS PACKAGE BUT ON WIDER ISSUES. ANDREOTTI (ITALY) SAID THAT THE QUESTION SHOULD NOT BE OVERDRAMATISED. THE COMMISSION SHOULD GO ON WITH THEIR WORK AND MIGHT BE ABLE TO COVER SOME OTHER ELEMENTS BESIDE THOSE WHICH HAD BEEN DIRECTLY UNDER DISCUSSION TODAY. BARRY (IRELAND) ALSO SUGGESTED THAT THE FAILURE SHOULD NOT BE OVERPLAYED AND THAT DISCUSSION SHOULD BE RESUMED ON 9 APRIL.

24. DUMAS (FRANCE) SAID THAT THE FRENCH DELEGATION RETAINED SOLIDARITY WITH THE 8 OTHER DELEGATIONS WHO WERE PREPARED TO ACCEPT THE PACKAGE DISCUSSED EARLIER TODAY. ONE DELEGATION HAD SEPARATED ITSELF FROM THE OTHER NINE. HIS DISAPPOINTMENT WAS VERY SERIOUS. IN PARTICULAR, HE HAD DOUBTS WHETHER IT WOULD BE POSSIBLE IN FURTHER DISCUSSIONS TO BASE THE REFERENCE YEAR FOR THE NEW SYSTEM ON 1983.

25. THE COUNCIL CONCLUDED IN THIS SPIRIT OF MALAISE, WITH CHEYSSON CONCLUDING THAT HE WOULD PASS ON TO SPECIALISED COUNCILS THE GUIDELINES NOT DISPUTED BUT NOT FORMALLY DECIDED EITHER. NO DELEGATION WOULD BE BOUND BY THEM. HE WOULD SO INFORM THE EUROPEAN PARLIAMENT. A NUMBER OF SUBJECTS WOULD BE DEALT WITH BY THE FOREIGN AFFAIRS COUNCIL (TRADE ITEMS, TECHNICAL BARRIERS, ERDF, IMPS) AND THE AGRICULTURE COUNCIL WOULD REACH ITS CONCLUSION AND SUBMIT THE FINANCIAL CONSEQUENCES TO THE FOREIGN AFFAIRS COUNCIL.

26. MINISTERS THEN MET ON THEIR OWN. VAN DEN BROEK ASKED WHAT WAS GOING TO HAPPEN IN THE INTERVAL BEFORE THE NEXT MEETING. WAS THERE GOING TO BE CONSIDERATION OF A NEW SYSTEM OR OF NEW FIGURES?

GOING TO BE CONSIDERATION OF A NEW SYSTEM OR OF NEW FIGURES? CHEYSSON SAID THAT, LIKE THE AGRICULTURE COUNCIL SPECIALIST COUNCILS SHOULD WORK ON OTHER ASPECTS OF THE STUTTGART PACKAGE. CONCERNING BUDGETARY IMBALANCES, THE ONLY OUTSTANDING ISSUES CONCERNED THE FIGURES, AND THE SPLIT BETWEEN THE THRESHOLD PVXSARYGISVKT MODERATEUR. IT WAS NOW FOR THE COMMISSION TO EXERCISE ITS TALENTS. DUMAS ALSO SUGGESTED EXAMINATION OF THE PARAMETERS OF THE SYSTEM, EG THE ISSUE OF EC10 AND EC12. FRANCE WANTED AGREEMENT ON BUDGETARY IMBALANCES AND LOOKED TO THE UK TO MAKE A CLEAR RESPONSE TO THE PRESENT SITUATION, OTHERWISE THE NINE WOULD HAVE TO CONSIDER WHAT THEY COULD DO TOGETHER. HE SPOKE OF THE POSSIBILITY OF MAJORITY VOTING.

27. THORN SAID THAT THE COMMISSION WOULD AIM TO MAKE A CLEAR PROPOSAL BY THE END OF NEXT WEEK. HOWEVER, THERE WERE PARTS OF THE OVERALL PACKAGE ON WHICH THE COMMISSION WOULD NOT BE WILLING TO MOVE, E.G. ACCEPTING A NEW VAT CEILING OF ONLY 1.4 PER CENT. HE NOTED THAT THE AGRICULTURE COUNCIL WAS MAKING HEAVY WEATHER AND REFERRED TO THE COMMUNITY'S MOUNTING CASH CRISIS. THERE WOULD BE A NEED FOR LEGISLATION LATER IN THE YEAR TO RESOLVE THIS. CHEYSSON CONFIRMED THAT IF THE AGRICULTURE COUNCIL REACHED AGREEMENT THIS WOULD BE PUT, TOGETHER WITH THE FINANCIAL IMPLICATIONS, TO THE FOREIGN AFFAIRS COUNCIL.

28. GENSCHER SAID THAT STOLTENBERG WISHED TO DISCUSS BUDGETARY IMBALANCES AND THE FINANCIAL IMPLICATIONS OF CURRENT PROPOSALS AT THE ECOFIN COUNCIL ON MONDAY. HE WOULD WANT TO STRESS THE SCALE OF PRESENT BURDENS AND THE UNACCEPTABILITY OF AN EXPLOSION OF COMMUNITY EXPENDITURE. ANDREOTTI DOUBTED WHETHER THE ECOFIN COUNCIL COULD HELP. GENSCHER SAID THEY HAD EXPERTISE WHICH COULD HELP CLARIFY THE ISSUES. CHRISTOFFERSON SAID THAT THE ECOFIN COUNCIL MIGHT EXPLORE HOW THE SYSTEM WOULD WORK ON THE BASIS OF REALISTIC FORECASTS RATHER THAN THE SYMBOLIC FIGURES USED SO FAR. GENSCHER AGREED AND SAID THE FORECASTS SHOULD INCLUDE THE FINANCIAL IMPLICATIONS OF DECISIONS ON AGRICULTURE. DUMAS, IN RESPONSE TO ANDREOTTI, SAID THAT A REFERENCE TO THE ECOFIN COUNCIL FOR CLARIFICATION OF THE FIGURES WOULD NOT DETRACT FROM THE OVERALL RESPONSIBILITY OF THE FOREIGN AFFAIRS COUNCIL AND COMMISSION. GENSCHER INSISTED THAT THE COMMISSION SHOULD NOT CARRY OUT ITS MANDATE UNTIL AFTER THE ECOFIN COUNCIL. THORN SAID THAT THEY WOULD PROVIDE INFORMATION TO HELP THE ECOFIN COUNCIL APPRAISE THE SITUATION AND THEN POSSIBLY MAKE A PROPOSAL BEFORE 9 APRIL. CHEYSSON RECOGNISED THAT THE ECOFIN COUNCIL COULD SHED SOME LIGHT AND FURTHER CONTACTS AND WORK BY THE COMMISSION MIGHT ALSO CLARIFY THE SITUATION FOR THE MEETING ON 9/10 APRIL.

FCO ADVANCE TO:-

FCO - PS PS/MR RIFKIND PS/PUS TICKELL HANNAY WALL
CAB - WILLIAMSON STAPLETON DURIE
MAFF - PS FRANKLIN ANDREWS
TSY - UNWIN FITCHEW MORTIMER
NO 10 - COLES

BUTLER

FRAME GENERAL/Economic 31 YEARS 1984

PS
LADY YOUNG
MR. BISHOP
S/PUS
MR. C. TIDWELL
R. BARNETT

RESIDENT CLERK
ED/ECD (1) (3)
ED/NEFS
ED/ERD
ED/
ED/

MR. H. (H)
Ecd (E)

ADDED OFFICE
D. WILLIAMS
R. STAPLETON
MISS S. J. LAMBERT
R. DUNN MR. PEARSON

DOT 1310
MR. R. GRAY
MR. R. HILLS (WES)

FILED OFF
MR. KENT
HM. CUSTOMS
& EXCISE

SECRETARY
MR. J. G. LITTLE
MR. J. B. TURNER
MISS JE COURT
MR. MORTIMER
MR. FITCHER

PS
SECRETARY
MR. FRANKLIN
MR. ANDREWS

MR. COLES
No. 10.

IMMEDIATE

CONFIDENTIAL
FRAME GENERAL/FRAME ECONOMIC
DESKBY 280800Z
FROM UKREP BRUSSELS 271920Z MAR 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 1124 OF 27 MARCH
INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG ATHENS LISBON MADRID STRASBOURG
ROUTINE WASHINGTON
INFO SAVING UKDEL NATO

ADVANCE COPY

FOREIGN AFFAIRS COUNCIL 27 MARCH 1984

SUMMARY

1. LITTLE OR NO DISCUSSION OF SUBJECTS OTHER THAN BUDGETARY
IMBALANCES. NO PROGRESS ON FIGURE, BUT SOME USEFUL POINTS
SEEM MORE OR LESS AGREED, NOTABLY THAT THERE SHOULD BE ONLY
ONE YEAR OF AD HOC COMPENSATION TO THE UK BEFORE THE INTRODUCTION
OF A FULL BUDGETARY CORRECTIVE SYSTEM. A NUMBER OF MEMBER STATES
TRIED TO ARGUE FOR A CHANGE IN THE BASE YEAR FOR THE SYSTEM,
AWAY FROM 1983.

2. MAIN DISCUSSION CONCENTRATED ON THE FIGURE FOR THE BASE OF
THE SYSTEM. ALL DELEGATIONS OTHER THAN UK PROVED UNWILLING TO
MAKE ANY MOVE TO BRIDGE THE GAP (BETWEEN THE 1,000 MECU ON OFFER
AND THE 1250 MECU WHICH THE PRIME MINISTER HAD INDICATED SHE
WOULD ACCEPT).

3. AT A LATE STAGE IN THE DISCUSSION, THE COMMISSION WITHDREW TO SEE IF THEY COULD COME UP WITH A PROPOSAL BUT FAILED TO DO SO AND THE MEETING DEGENERATED INTO A NINE TO ONE LINE-UP, WITH SEVERAL DELEGATIONS INDICATING THAT CONCESSIONS MADE WOULD NOT REMAIN ON THE TABLE.

4. COMMISSION HAVE NOW BEEN ASKED TO COME FORWARD WITH FURTHER IDEAS AND FIGURES, POSSIBLY AFTER SOME DISCUSSION IN ECOFIN COUNCIL ON 2 APRIL, IN PREPARATION FOR A FURTHER ATTEMPT TO REACH AGREEMENT AT THE 9/10 APRIL FOREIGN AFFAIRS COUNCIL. IN THE MEANTIME GUIDELINES NOT DISPUTED EVEN IF NOT AGREED WOULD BE PUT TO SPECIALIST COUNCILS AS APPROPRIATE, THOUGH NO ONE WAS BOUND BY THEM.

5. FOR DETAIL SEE MY TWO IFTS.

FCO ADVANCE TO:

FCO - PS PS/MR RIFKIND PS/PUS TICKELL HANNAY WALL
CAB - WILLIAMSON STAPLETON DURIE
MAFF - PS FRANKLIN ANDREWS
TSY - URWIN FITCHEW MORTIMER
NO.10. - COLES

BUTLER

NNNN

PRIME MINISTER

FOREIGN AFFAIRS COUNCIL/AGRICULTURE COUNCIL

You may like to ask:

- (a) The Minister of Agriculture to describe the outcome of the Agriculture Council;
- (b) The Foreign and Commonwealth Secretary to describe the outcome of the Foreign Affairs Council.

You will then need to decide, with reference to the Foreign and Commonwealth Secretary's statement to the House in the afternoon, what should be said about:-

- (i) Supplementary advance to the Commission;
- (ii) Prospects for our refunds, bearing in mind that they will now not be paid by 31 March;
- (iii) Withholding.

Finally, you may wish to have a brief discussion about the tactics for the period between now and the next Foreign Affairs Council on 9 April.

A. J. C.

27 March 1984

010

SECRET

Prime Minister ②
To be aware. DTI
make out a good case AT 28/3
ccy/o 1



JH 179

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 215 7877

27 March 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

ms

TOTAL COPIES 18

COPY No. 2

D Nigel,

CAPITAL ALLOWANCES: TRANSITIONAL ARRANGEMENTS FOR CERTAIN REGIONAL PROJECTS

Despite our efforts to devise arrangements which would protect the Nissan project from the short-term consequences of the withdrawal of capital allowances and which would minimise the risk of challenge by the Commission, the Commission have informed us that they regard the arrangements as constituting regional aid. The Commission are therefore arguing that the arrangements are a notifiable aid and must not be put into effect until the Commission have assessed their capability with the Common Market. ... A copy of the telegram is attached.

2 The Commission's challenge is somewhat surprising in that the UK's system of capital allowances and changes in that system have not been challenged in the past. On the other hand, I am informed by my legal advisers that because Article 93 of the Treaty of Rome is drawn so widely, transitional tax measures could constitute a notifiable aid.

3 Whatever the strictly legal argument, I believe there is only one course open to us if we are to honour our commitment to Nissan and safeguard the project. We have no alternative but to contest the Commission's interpretation by arguing that the transitional arrangements do not constitute the granting of an aid and are not therefore notifiable. The transitional arrangements announced in the Budget remain our best hope of avoiding successful challenge by the Commission: we could not even begin to defend measures which were specific to Nissan and/or of an expenditure nature. If we were to notify it is likely that the Commission would allow the transitional arrangements to proceed; although in the current climate this cannot be certain. But we would then have to include the 'benefit' of these arrangements in the assistance calculations for each of the projects affected. For Nissan this would push the level of 'assistance' well above the Commission's permitted level of 'net grant equivalent' and thus kill the project.

SECRET

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4 There are several arguments we can use in defence of the line that the transitional arrangements do not constitute a grant of aid and are not therefore notifiable. but I believe that we stand the best chance of stopping this proceeding beyond officials in DGIV if we combine a firm but short response to the letter from the Director of DGIV with a low-key and informal delivery. I would therefore propose that our Counsellor (Industry) in Brussels personally delivers the reply, the nub of which would be:

"We do not regard a tax measure which is designed to reduce the pre-Budget regime of capital incentives to UK companies through the withdrawal of capital allowances as constituting an aid and therefore as notifiable."

The Counsellor could explain some of our broad reasoning behind this view in an attempt to keep the exchange as informal as possible.

5 If the Commission pursue the matter, we would use the following arguments:

i) We are not granting an aid to the projects covered by the transitional arrangements. They will simply continue to receive, for a very limited period of time, the pre-Budget level of capital allowances, which have never been challenged as constituting an aid.

ii) There is not any geographically differentiated rate of capital allowances. The new structure of corporation tax will apply nationally.

iii) The announced proposals are purely transitional arrangements to move from the current structure of corporation tax to the new structure.

iv) None of the projects which will be covered by the transitional arrangements will receive anything additional to that which was negotiated and which was within the EC rules. It is simply that the current tax system, on which these projects were negotiated, will continue to apply in these cases, for the limited number of years over which specific and committed capital expenditure will take place. The Government is honouring its commitments.

v) In similar vein, the Chancellor has also announced that the existing rates of capital allowances will apply to future expenditure (as long as it is expended within three years) which, by Budget day, was contractually committed.

6 If you agree with this course of action I will ask my officials (in conjunction with yours) to brief Counsellor

SECRET



(Industry) with a view to responding to the Commission later this week.

7 I am copying this letter to the Prime Minister and the Foreign Secretary.

Norman

NORMAN TEBBIT

SECRET

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RESTRICTED

FRAME INDUSTRIAL
FM UKREP BRUSSELS 201520Z MAR 84
TO PRIORITY FCO
TELEGRAM NUMBER 1013 OF 20 MARCH

REGIONAL AIDS

1. FOLLOWING RECEIVED FROM COMMISSION.

BEGINS: DEAR SIR,
NEWSPAPER REPORTS OF THE CHANCELLOR OF THE EXCHEQUER'S BUDGET
SPEECH ON 13 MARCH 1984 REFER TO THE GRADUAL ABOLITION OF THE
CAPITAL ALLOWANCES CURRENTLY GRANTED WITHIN THE U.K. CORPORATION
TAX SYSTEM. INVESTMENT PROJECTS WITHIN THE DEVELOPMENT AND
SPECIAL DEVELOPMENT AREAS FOR WHICH SELECTIVE FINANCIAL ASSISTANCE
HAS BEEN AGREED ON OR BEFORE 13 MARCH 1984 WILL, HOWEVER,
CONTINUE TO RECEIVE CAPITAL ALLOWANCES UNDER THE OLD SCHEME.
THIS CONSTITUTES REGIONAL AID, THE GRANT OF WHICH MUST,
UNDER ARTICLE 93(3) EEC, BE NOTIFIED TO THE COMMISSION. I
WOULD ASK YOU, THEREFORE, TO SUBMIT A NOTIFICATION GIVING
FULL DETAILS OF THE PROPOSED AID. MAY I REMIND YOU THAT THE
PROPOSED AID MEASURE MAY NOT BE PUT INTO EFFECT UNTIL THE
COMMISSION HAS ASSESSED ITS COMPATIBILITY WITH THE COMMON
MARKET, HAVING REGARD TO ARTICLE 92 EEC.

YOURS FAITHFULLY,

R. SUNNEN

DIRECTOR

ENDS.

2. GRATEFUL FOR DRAFT REPLY.

FCO COPY TO:

FCO - PAUL, FAIRWEATHER

CAB - MACKENNEY, LAMBERT

DTI - WALMSLEY (RPDG 2) N WHITING (IP 1)

BUTLER

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ECD (I)

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27 FEB 1984





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10 DOWNING STREET

From the Private Secretary

26 March 1984

FOREIGN AFFAIRS COUNCIL

The Prime Minister held a meeting with the Foreign and Commonwealth Secretary this morning to consider tactics for tomorrow's Foreign Affairs Council. Mr. Hannay and Mr. Williamson were present.

At the end of the meeting, the Prime Minister said that, while there might be advantage in maintaining a general reserve on the outcome of the Agricultural Council subject to the outcome of the Foreign Affairs Council, we should in the end be prepared to let the agricultural package go through, provided our wishes were met on the variable beef premium. The main reason for allowing the agricultural package to proceed would be that it would increase the financial pressure on other Member States and thus help to secure our objectives on the main Stuttgart package. But in discussion of the problem of equitable budget contributions in the Foreign Affairs Council we should not retreat from the figure of 1250 ecu's which the Prime Minister had tabled at the European Council.

We should make it plain in whichever Council finally approved the agricultural package that we were not prepared to be bound by the financial consequences of the package insofar as they took the Community beyond the 1 per cent VAT ceiling.

We should also seek to strengthen our case for refunds by referring to the need for interest to be paid after the dates on which the refunds became due.

The Prime Minister also asked that a paper should be prepared on the sanctions available to us against other EC Member States if they continued to block a settlement of the budgetary issues including the question of UK refunds. I should be grateful if Mr. Williamson could set in hand the production of such a paper.

I am copying this letter to Ivor Llewelyn (MAFF), David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

A.J. COLES

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



cc 710

JD

bc PC

10 DOWNING STREET

From the Private Secretary

PERSONAL AND CONFIDENTIAL

SIR ROBERT ARMSTRONG

FOREIGN AFFAIRS COUNCIL

Thank you for your minute of 23 March enclosing a draft of a possible letter from the Prime Minister to the Federal Chancellor.

I understand that the Foreign and Commonwealth Secretary has reached much the same conclusion as the Prime Minister reached earlier, namely that we should concentrate our efforts on Herr Genscher and that the Prime Minister should therefore not at this stage contact Chancellor Kohl direct.

I am copying this minute to Mr. Bone (Foreign and Commonwealth Office).

A. J. COLES

26 March 1984

PERSONAL AND CONFIDENTIAL

IMMEDIATE

ADVANCE COPIES

FRAME ECONOMIC

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20 PROX COF

PS
S/REKIND
~~MR G TICKELL~~
MR G TICKELL
MR HANWAY
MR FAIRWEATHER ECD (1)
MR WALL ECD (1)

RESIDENT CLERK
ED/ECOD (1) (3)
ED/NEWS D
ED/ERD
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ED/

PLUS FCO

CABINET OFFICE

MR D WILLIAMSON
MR G STAPLETON
MR M PEARSON
MR D E C DURIE

DOT

PLUS GGDS

MR P KENT
MR M CUSTON
MR G LORSE

HM TREASURY

MR J B UNWIN
MISS J E COURT
MR J G LITTLE
MR J E MORTIMER
MR FITCHEW

MAFF

PERMANENT SECRETARY
MR FRANKLIN
MR ANDREWS

NO 10 DS
(FOR SEC/STATE)
CHEQUERS

MR COLES

A.J.C. 26/3.

p.a.

GRS 1650

CONFIDENTIAL

FRAME ECONOMIC

FM BONN 241420Z MAR 84

TO IMMEDIATE DESKBY FCO 241630Z

TELEGRAM NUMBER 312 OF 24 MARCH

INFO IMMEDIATE UKREP BRUSSELS, PARIS

INFO ROUTINE ATHENS, EMBASSY BRUSSELS, COPENHAGEN, DUBLIN,
LUXEMBOURG, ROME, THE HAGUE

YOUR TELNO 183: MY CALL ON GENSCHER

1. I HAD ABOUT 40 MINUTES WITH GENSCHER THIS MORNING.
2. I READ OUT TO HIM PARAGRAPHS 1 AND 2 OF TUR. GENSCHER COMMENTED TWICE TO SAY THAT:
 - (A) THE GERMAN POSITION WAS THAT THEY SUPPORTED THE PRESIDENCY SYSTEM, AND
 - (B) THAT HE CONFIRMED THE GERMANS UNDERSTOOD THAT THE PRIME MINISTER HAD BEEN READY TO ACCEPT AN AD HOC REFUND OF 1,000 MECU FOR 1984 FOLLOWED IN THE SECOND YEAR BY THE ADOPTION OF A SYSTEM.
3. WITH REGARD TO YOUR PROPOSAL FOR A WORKING BREAKFAST ON 27 MARCH, GENSCHER SAID HE WAS HAPPY TO TAKE UP YOUR INVITATION. HE INSTRUCTED HIS PRIVATE SECRETARY TO RESCHEDULE AN APPOINTMENT

HE INSTRUCTED HIS PRIVATE SECRETARY TO RESCHEDULE AN APPOINTMENT WITH VOGEL (LEADER OF THE SPD) ALREADY FIXED FOR THAT TIME, AND TO GET IN TOUCH WITH YOUR PRIVATE SECRETARY ABOUT THE DETAILS OF WHEN AND WHERE YOU AND HE WOULD MEET ON TUESDAY. HE SUGGESTED STARTING AT 8.45.

4. GENSCHER SAID THAT HE WAS VERY GLAD TO HEAR THE POINTS IN PARA 1 (H), (HH) AND (HHH) OF TUR. WHAT YOU HAD SAID CORRESPONDED VERY CLOSELY TO HIS AND THE GERMAN POSITION. HE ADDED THAT THE GERMANS ATTACHED THE GREATEST IMPORTANCE TO AVOIDING ANY DISPUTES WITH HMG WHETHER IN PRIVATE OR IN PUBLIC. SUGGESTIONS THAT BRITAIN SHOULD BE ISOLATED OR LEAVE THE COMMUNITY WERE NONSENSE. HE REFERRED TO AN ARTICLE OF HIS PUBLISHED YESTERDAY AND TO AN INTERVIEW HE HAD GIVEN TO DER SPIEGEL WHICH WILL BE PUBLISHED ON 26 MARCH. THE BASIC GERMAN ASSESSMENT OF THE EUROPEAN COUNCIL WAS SET OUT IN THESE TEXTS.

(COMMENT: QUOTATIONS FROM HIS ARTICLE APPEARED IN TODAY'S BONN GENERAL ANZEIGER ACCORDING TO WHICH HE DESCRIBED ATTEMPTS TO ISOLATE OR DRIVE BRITAIN OUT OF THE COMMUNITY AS 'CRAZY AND IRRESPONSIBLE', ADDING THAT THEY WOULD MEET THE DETERMINED OPPOSITION OF THE FEDERAL GOVERNMENT. THE COMMUNITY WOULD LOSE MORE THAN A SINGLE MEMBER IF BRITAIN LEFT. THE GERMANS ABOVE ALL KNEW THIS BECAUSE OF LONDON'S ROLE AS A GUARANTOR OF BERLIN. FOR HER PART, BRITAIN MUST RECOGNISE THAT THE ADVANTAGES OF MEMBERSHIP OF THE COMMUNITY OUTWEIGHED BY FAR THE DISADVANTAGES.) HE WENT ON TO SAY THAT HE WAS ALSO GLAD THAT ON THE STUTTGART PACKAGE BRITISH AND GERMAN VIEWS REMAINED, AS THEY HAD ALWAYS BEEN, SO CLOSE. HE SAID THE GERMANS WERE VERY KEEN TO ACHIEVE ECONOMIES ON THE CAP AND TO ACHIEVE GREATER FINANCIAL DISCIPLINE. HE HOPED THE GERMANS AND THE BRITISH COULD SUPPORT ONE ANOTHER IN ACHIEVING THESE AIMS.

5. WITH REGARD TO THE PROPOSAL MADE AT THE EUROPEAN COUNCIL BY CHANCELLOR KOHL, HE SAID THAT THE AIM OF THIS HAD BEEN TO REVIVE THE NEGOTIATIONS WHICH HAD SEEMED TO THE GERMANS TO HAVE REACHED DEADLOCK. THE GERMAN PLAN WAS THAT THE AD HOC ARRANGEMENT WOULD BE TRANSFORMED, AFTER A PERIOD, INTO THE PRESIDENCY SYSTEM. BUT THE GERMANS WOULD BE PERFECTLY HAPPY TO SEE THE SYSTEM ENTER INTO FORCE SOONER - IT COULD BE AFTER 5 OR 3 OR 2 YEARS OR 1. IN ANSWER TO A QUESTION, HE SAID THAT THE PRESIDENCY TEXT WOULD OF COURSE HAVE TO BE AMENDED SO THAT THE GERMAN CONTRIBUTION TO THE CORRECTION SHOULD BE AT TWO THIRDS THE NORMAL VAT SHARE.

6. FOR THE BRITISH AND ALSO FOR THE GERMANS THE DYNAMIC OF THE SYSTEM WAS, GENSCHER SAID, THE VITAL POINT. IT WAS ALSO VITAL FOR THE GERMANS THAT THE THRESHOLD FOR BRITAIN SHOULD BE COMPATIBLE WITH THE SETTING OF A THRESHOLD FOR THE FEDERAL REPUBLIC WHICH WOULD ACTUALLY WORK. ON THE QUESTION OF THE GERMAN CONTRIBUTION TO BRITISH REFUNDS, GENSCHER SAID THAT THE GERMANS HAD ALREADY SECURED AGREEMENT IN RELATION TO COMPENSATION FOR 1982 AND 1983 THAT THEIR SHARE SHOULD BE REDUCED TO 50 PER CENT. HE ADDED THAT AT THE EUROPEAN COUNCIL THE GERMANS HAD MISSED BRITISH SUPPORT ON A REDUCTION OF THEIR SHARE. THE FEDERAL CHANCELLOR HAD PROPOSED INCREASING THE GERMAN SHARE TO TWO THIRDS SO AS TO MAKE IT POSSIBLE FOR AN OFFER TO BE MADE. THE ONLY OPEN QUESTION WAS THE BASIC FIGURE FOR BRITAIN.

IF IT WAS 1,000 MECU IN THE FIRST YEAR THEN IT WOULD RISE THEREAFTER. AGREEMENT COULD BE REACHED ON THAT. BUT IF THE BASIC FIGURE WAS 1,250 MECU THEN IN THE FOLLOWING YEARS IT WOULD BE MUCH HIGHER. AGREEMENT ON THAT COULD NOT BE REACHED. HE STRONGLY RECOMMENDED THAT WE SHOULD ACCEPT 1,000 MECU AS THE STARTING POINT. IT WAS HIGHLY DESIRABLE TO GET EVERYTHING SETTLED NEXT WEEK.

IT WAS HIGHLY DESIRABLE TO GET EVERYTHING SETTLED NEXT WEEK. THERE WERE ONLY TWO PROBLEMS - THE STARTING FIGURE FOR BRITISH REFUNDS IN THE SYSTEM AND THE IRISH PROBLEM. HE SAID HE SHARED WITH THE FRENCH THE OBJECTIVE OF GETTING OUTLINE AGREEMENT AT THE AGRICULTURAL COUNCIL ON ALL ISSUES EXCEPT THE IRISH PROBLEM WHICH SHOULD BE DEALT WITH, LIKE BUDGETARY IMBALANCES, AT THE FAC.

7. HE POINTED OUT TO GENSCHER THAT IN COMING DOWN FROM 1,500 MECU THE PRIME MINISTER HAD MADE A VERY GREAT COMPROMISE. THE PARTNERS HAD NOT MOVED AT ALL. GENSCHER CONTESTED THIS AND MAINTAINED THAT THE PARTNERS HAD IN FACT STARTED AT 750. HE ALSO POINTED OUT THAT ALTHOUGH IT COULD BE ASSUMED THAT THE SIZE OF REFUNDS WOULD, AS A RESULT OF THE DYNAMIC NATURE OF THE SYSTEM, INCREASE, THAT WOULD NOT AFFECT THE PROPORTION OF COMPENSATION WE WOULD RECEIVE. IN AGREEING TO THE PRESIDENCY PROPOSAL WE HAD ACCEPTED THAT PART OF OUR LEVIES AND DUTIES WERE LEFT OUT OF ACCOUNT. WE HAD MADE CONCESSIONS BOTH ON METHODOLOGY AND ON THE FIGURES. COMPENSATION FOR BRITAIN HAD OVER THE YEARS BEEN AT THE RATE OF TWO THIRDS. THIS WAS A KEY POINT AND ALSO IMPORTANT PRESENTATIONALLY IN THE HOUSE OF COMMONS. THE FIGURE OF 1,250 MECU WAS A NOTIONAL FIGURE RELATING TO THE OUT-TURN IN 1983 ON THE BASIS OF A COMMUNITY OF 12. THE ACTUAL FIGURE FOR A SYSTEM THAT CAME INTO EFFECT FIRST IN RELATION TO 1985 WOULD OF COURSE BE DIFFERENT.

8. GENSCHER SAID THAT IN ACHIEVING AGREEMENT ON A SYSTEM BOTH THE GERMANS AND THE BRITISH HAD IN EFFECT BROUGHT THE OTHERS TO ACCEPT A CHANGE IN THE TREATY. THIS MARKED A DRAMATIC SHIFT IN THE FRENCH POSITION. FOR THE GERMANS TO ACCEPT A STARTING FIGURE OF 1,000 MECU WOULD ALSO NEED CAREFUL PRESENTATION TO THE BUNDESTAG BUT IT COULD BE DONE BY REFERRING TO THE VALUE OF A DYNAMIC SYSTEM FOR THE FEDERAL REPUBLIC AND THE PROTECTION IT WOULD AFFORD IN RELATION TO THE GROWTH OF THEIR TOTAL NET CONTRIBUTION. HE SUGGESTED THAT A SYSTEM BASED ON 1,000 MECU COULD BE DEFENDED IN BRITAIN ON THE GROUNDS THAT A LASTING SYSTEM HAD FINALLY BEEN ACHIEVED AND THAT THEREBY THE ANNUAL STRIFE OVER THE SIZE OF COMPENSATION FOR BRITAIN WAS A MATTER OF THE PAST. IT WAS WORTH PAYING A PRICE FOR THAT ACHIEVEMENT. HE ALSO SEEMED TO IMPLY THAT EVEN IF THE STARTING FIGURE WAS 1,000 MECU IT WOULD BE POSSIBLE IN THE SUBSEQUENT NEGOTIATION OF THE DETAIL BY THE FINANCE MINISTERS TO ACHIEVE SOME IMPROVEMENT. HE DISPUTED THIS LAST POINT AND REMINDED GENSCHER THAT WHAT WE WERE BEING ASKED TO ACCEPT WAS THAT WE SHOULD PAY A DISPROPORTIONATELY LARGE CONTRIBUTION INDEFINITELY, IE 50 PER CENT OF OUR NET CONTRIBUTION. THAT WAS SIMPLY TOO MUCH. THE PM'S READINESS TO ACCEPT AN AD HOC REFUND OF 1,000 IN RESPECT OF 1984 WAS A CONCESSION TO THE COMMUNITY'S CURRENT FINANCIAL DIFFICULTIES. IT COULD NOT BE THE BASIS OF A DURABLE SYSTEM. HE ALSO POINTED OUT THAT INCREASING OWN RESOURCES ALSO MEANT CHANGING THE TREATY AND THAT THE FRENCH WOULD THEMSELVES NEED A REFUND SYSTEM AFTER ENLARGEMENT. GENSCHER CONCLUDED BY SAYING THAT HE COULD ONLY ADVISE THAT WE SHOULD RECOGNISE THAT THE CRUCIAL POINT WAS GETTING A DYNAMIC SYSTEM.

REFORM OF THE CAP

9. GENSCHER SAID THAT THE GERMANS WERE CONCERNED SOMEHOW TO RETAIN A LEVER WHEREBY THEY COULD ENSURE THAT AGREEMENT IN PRINCIPLE REACHED NEXT WEEK ON CAP REFORM. FINANCIAL DIFFICULTIES

9. GENSCHER SAID THAT THE GERMANS WERE CONCERNED SOMEHOW TO RETAIN A LEVER WHEREBY THEY COULD ENSURE THAT AGREEMENT IN PRINCIPLE REACHED NEXT WEEK ON CAP REFORM, FINANCIAL DISCIPLINE AND BUDGETARY IMBALANCES, WOULD BE TURNED INTO DETAILED EFFECTIVE TEXTS BY THE TIME OF THE JUNE SUMMIT. HE WOULD WELCOME YOUR VIEWS ON HOW THAT COULD BE DONE. IT WAS VITAL TO KEEP THE STUTTGART PACKAGE TOGETHER.

MILK

10. WITH REFERENCE TO THE IRISH DIFFICULTIES OVER MILK, GENSCHER SAID THAT THE FEDERAL GOVERNMENT WERE SYMPATHETIC. AGRICULTURE WAS THE BACKBONE OF THE IRISH ECONOMY AND THE MILK SECTOR WAS THE BACKBONE OF IRISH AGRICULTURE. THE GERMANS HAD BEEN READY TO INCREASE THE COMMISSION'S RESERVE TO A MILLION TONNES OF WHICH 600,000 TONNES WOULD BE FOR IRELAND. THE GERMANS WOULD STAND BY THAT BUT HE WAS NOT SURE WHETHER FITZGERALD'S WALK OUT HAD BEEN AIMED AT SECURING THE ADDITIONAL 600,000 TONNES OR WHETHER HE REALLY WANTED MORE. IF THE LATTER WAS TRUE, FITZGERALD WAS BEING UNREALISTIC. HE SAID THAT WE TOO HAD A SYMPATHY FOR IRELAND'S PROBLEMS BUT, REFERRING TO MR JOPLING'S STATEMENT, HE POINTED OUT THAT IF AN EXCEPTION WAS MADE FOR IRELAND THEN IT WOULD BE NECESSARY FOR AN EXCEPTION TO BE MADE FOR NORTHERN IRELAND AS WELL. THE ECONOMIC PROBLEMS OF NORTHERN IRELAND WERE WELL KNOWN AND FURTHERMORE IT WOULD BE IMPOSSIBLE TO INSULATE THE AGRICULTURAL SYSTEM THERE FROM THE REPUBLIC. GENSCHER SAID THAT HE THOUGHT THAT POLITICALLY UNACCEPTABLE. IT WAS NOT POSSIBLE TO ARGUE THAT NORTHERN IRELAND BELONGED TO BRITAIN EXCEPT IN RELATION TO MILK WHEN IT BELONGED TO THE REPUBLIC. HE REEMPHASISED THE DIFFICULTIES. HE ADDED THAT IF THE PROBLEM OF BUDGETARY IMBALANCE COULD BE SOLVED THEN HE WAS CONFIDENT THAT FITZGERALD WOULD NOT HOLD OUT ON HIS OWN.

1100 MECU

11. REFERRING TO THE DISCUSSION ON THE FIRST EVENING OF THE EUROPEAN COUNCIL WHEN THE FIGURE OF 1100 MECU HAD BEEN MENTIONED, HE ASKED GENSCHER WHAT THE CHANCELLOR'S ATTITUDE TO IT WAS. GENSCHER SAID THAT HIS UNDERSTANDING WAS THAT SOME HAD MENTIONED A THOUSAND, SOME HAD MENTIONED LESS AND SOME HAD MENTIONED 1100. A THOUSAND CAME TO BE REGARDED AS A REASONABLE COMPROMISE.

12. GENSCHER SAID THAT ON THE MORNING FOLLOWING THE COUNCIL HE HAD TELEPHONED CHEYSSON TO SAY THAT HE FELT THE COUNCIL HAD NOT DONE TOO BADLY, A GOOD DEAL HAD BEEN AGREED AND IT OUGHT TO BE POSSIBLE TO MAKE FURTHER PROGRESS. HE THOUGHT THAT MINISTERS SHOULD MEET AGAIN SOON. HE HAD BEEN DELIGHTED TO FIND THAT CHEYSSON HAD COME TO A SIMILAR ASSESSMENT AND SUBJECT TO MITTERRAND'S VIEWS WOULD BE PROPOSING AN EARLY MEETING OF THE FAC. GENSCHER SAID THAT HE FELT THAT AGREEMENT WAS WITHIN REACH AND THAT HE WOULD BE GOING TO THE COUNCIL ON TUESDAY IN AN OPTIMISTIC FRAME OF MIND AND READY TO DO ALL HE COULD TO REACH AGREEMENT. HE SAID THAT YOUR APPROACH TO THE COUNCIL WAS IDENTICAL BUT THAT FOR US A KEY POINT WOULD BE THE STARTING FIGURE FOR THE SYSTEM.

FCO PLEASE PASS ADVANCE COPIES (BY 9AM 26/3/84) 59:
CABINET OFFICE - WILLIAMSON, DURIE, STAPLETON
FCO - PS, TUCKELL, HANNAY, FAIRWEATHER, WALL
TREASURY - UNWIN, FITCHEW, MORTIMER
MAFF - FRANKLIN, ANDREWS

NO 12 - 6055



Ref. A084/941

MR COLES

When I saw the Prime Minister this morning we discussed briefly whether it might be advantageous for her to send a message to the Federal Chancellor before the meeting of the Council of Ministers on Tuesday 27 March.

--- 2. Mr Williamson has prepared a draft of a letter which the Prime Minister might send. It does not make the wider political points about which the Prime Minister was talking, which are really points which would much more easily be made orally than in writing. But it would be possible to expand the last paragraph of the draft so as to emphasise the Prime Minister's wish that this matter should be resolved as soon as possible, so that the European Community can address itself to the future - and in that context the Prime Minister could conveniently refer to what she is planning to say in her speech tomorrow: indeed, she could even attach a copy.

3. I understand that Sir Jock Taylor is to see Herr Genscher tomorrow, and it would be advisable not to send a letter before that meeting, or until we have a report of the result of it. But I think that there might be a good deal to be said for sending such a letter early on Monday (we could send it over the direct line to the Federal Chancellor's office), so that it arrived by lunchtime on Monday and thus in time to send its signal to the Federal Chancellor before the German delegation leaves for the Brussels meeting.

4. I am sending a copy of this minute and of the draft to the Private Secretary to the Foreign and Commonwealth Secretary.

ROBERT ARMSTRONG

23 March 1984

*. Suggestion for an expanded last paragraph also attached.

Draft letter from the Prime Minister to
Chancellor Kohl

I thought that I should write to you before the
Council of Foreign Ministers on Tuesday next,
because I still feel that there are some misunderstand-
ings which were not cleared up in the final stages
of the European Council.

on budget imbalances,
In relation to the proposal which you put forward
I had understood that this was an entirely ad hoc
solution. It is on that basis that I rejected it,
because I have always believed that it is in the
interest of both our countries and of the Community
generally that there should be a system in place to
end the warfare over budget contributions. Everything
still points to the need for such a system.

The United Kingdom has not rejected an ad hoc
solution for one [or two] year[s]- and at a level of
compensation which you have said to be acceptable to
you - if you consider this necessary to protect your
position in the period before new own resources
become available. Nor, of course, do we object to
the proposal you made that the German share of the
financing of this compensation should be reduced. It
is surely right, however, that we should have the
system in place after this interim period.

/The

The system of correcting the budget imbalances is, in any event, included in the text presented by President Mitterrand in his capacity as President of the European Council. The United Kingdom supports and accepts that text not only in relation to budget imbalances but in its entirety. There remains the figure which is to be inserted in the blank space in that text (page 12 of the last paragraph of the draft conclusions in the latest version circulated by the Council Secretariat). I am confident that this can be resolved.

Throughout many months of discussions the United Kingdom has continued to support the view that it was reasonable for the Federal Republic to have a limit on its contribution in the new system. We continue to take this view, despite pressures from other member states in the opposite sense. It was in the light of this that I was distressed when you appeared to abandon our common search for a mechanism to be incorporated in the revised Own Resources Decision which would correct what we see as injustice to the major net contributors.

I very strongly hope that in the Foreign Ministers' Council on Tuesday it will be possible to resolve these issues and, if so, I hope that they would be submitted to each Head of Government for endorsement without a meeting at our level. In that event the Presidency text, with the appropriate figures in relation to budget imbalances, would after all become our agreed conclusions.

Expanded last paragraph:

Apart from the interest that we share - as the two major net contributors - in putting such a mechanism in place, there is a much wider interest in building upon the very considerable progress we made at Brussels to agree a settlement of these issues as soon as ever possible. Until they are settled, we shall be too preoccupied with these current problems to address ourselves to the future of Europe. I know the personal commitment that you have - and that President Mitterrand shares - to working out the policies and initiatives which will increase the cohesion of the European Community and enable it to realise its full political and economic potential, to the benefit of its own peoples and of the wider world. I too share this commitment, as I made clear in a speech I made this weekend; I am arranging for you to be sent a copy of what I said. So I very strongly hope that in the Foreign Ministers Council ...

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~~CCNO~~



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

A. & C. 26/3
f-a.

FOREIGN AND COMMONWEALTH SECRETARY

POST EUROPEAN COUNCIL NEGOTIATIONS: BUDGETARY DISCIPLINE

I have now had a chance to study the chapter of the final Presidency draft text on budgetary discipline.

2. There was not time for us to have a word about it this morning, but there are a couple of points I should like to put to you.
3. In general, it is not a bad text. It could provide the basis for agreeing satisfactory arrangements in the second stage negotiations. But, despite the helpful wording of paragraph 3, it still does not itself secure the principal objective we set ourselves before the European Council - that the arrangements should be embodied in the Community's budgetary procedures in a form binding on all three institutions.
4. In the discussions at the Foreign Affairs Council next Tuesday, therefore, I hope you will try to secure a further amendment to achieve this. This could be done by adding to the end of paragraph 3 the words "so that they are embodied in the Community's budgetary procedures in a form binding on all three institutions".
5. If you cannot secure this amendment, I hope you can at least make it absolutely clear that, in the follow-up negotiations, we shall interpret paragraph 3 as requiring procedural changes in the above sense. Again, consistent with the line we have previously taken, this will not necessarily entail Treaty amendment; but it will not preclude it.

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6. I think also that, given the technical nature of the follow-up, the invitation in paragraph 3 should be explicitly addressed to Finance Ministers - ie the ECOFIN Council. It is most important that, for example, Delors and Stoltenberg should be directly involved.

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

Judith Simpson

NL
23 March 1984

approved by the Chancellor.

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FRAME: GENERAL

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~~PS/TICKELL~~
SIR C TICKELL
MR HANNAY
MR ADAMS

~~SECRETARY~~
ED/ECG (I) (3)
ED/NEFS
ED/ECG (E) 3
ED/ERS
ED/

FILE FOR
Mr Heath

<p>CABINET OFFICE MR D WILLIAMSON MR STAPLETON MISS S J LAMBERT MR DURIE <i>MR Pearson</i></p>	<p>DOT <i>1310</i> MR R GRAY MR R WELLS (WEG) MR R WELLS (WEG)</p>	<p>FILE OGD ODA MR L STANTON</p>
<p>HM TREASURY MR J G LITTLE MR J B UNWIN MISS JE COURT <i>MR J C MORTIMER</i></p>	<p>MAFF SECRETARY <i>ANDREWS</i></p>	<p>MR KENT CUSTOMS PEX MR COLES No 10</p>

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 TO FLASH FCO
 TELEGRAM NUMBER 1050 OF 22 MARCH
 INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
 BONN LUXEMBOURG ATHENS
 INFO LISBON MADRID.

M I P T.
 FOLLOWING IS TEXT OF GERMAN PROPOSAL.
 CHANCELLOR KOHL'S COMPROMISE PROPOSAL.

1. COMPENSATION FOR THE U K WOULD BE FIXED FOR 5 YEARS.
2. EACH YEAR THE U K SHALL RECEIVE 1000 MECUS NET IN THE FORM OF A VAT ABATEMENT.
3. THE COMPENSATION WILL BE FINANCED BY THE OTHER MEMBER STATES ACCORDING TO THE NORMAL VAT SHARES EXCEPT IN THE CASE OF GERMANY WHICH WOULD CONTRIBUTE TWO THIRDS OF ITS NORMAL VAT SHARE : THE OTHER 8 MEMBER STATES WOULD FINANCE THE REMAINING ONE THIRD ON THE BASIS OF THEIR NORMAL VAT SHARE.
4. AFTER THE 5 YEARS THE COMPENSATION PROPOSED BY THE PRESIDENCY WILL ENTER INTO FORCE.

FCO ADVANCE TO:
 FCO - PS PS/MR RIFKIND PS/PUS TICKELL HANNAY WALL
 CAB - WILLIAMSON STAPLETON DURIE
 MAFF - ANDREWS
 TSY - UNWIN
 NO 10 - COLES

BUTLER

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Qz.03644

MR COLLES ✓ A. & C. 73.

PAYMENTS OF "OWN RESOURCES" TO THE COMMUNITY

If the Cabinet were to decide that we should not make the advance payment requested by the Commission and/or that we should suspend the normal monthly payments of the Community's own resources, I suggest that the presentation by the Prime Minister (if it were decided that she should refer to these points in parliamentary questions this afternoon) might be as follows -

(1) the advance payment

"The United Kingdom has no legal or other obligation to make an advance payment of funds to the Community. The supplementary estimate was laid in response to a special request from the European Commission which is having serious difficulty in financing Community expenditure. We were ready to respond in the Commission's difficult circumstances. Since, however, the United Kingdom's 1983 refunds will not now be paid out of the Community budget by 31 March, the financial situation is different. We shall not therefore be making the special advance payment to Brussels."

(2) "withholding"

"The United Kingdom has decided to hold in suspense here the amount of Community funds which is equivalent to the United Kingdom's 1983 refund of 750 million ecu net which was agreed in Stuttgart last year but has not been paid. Hon Members will recognise that in this way we are taking action which matches the decision of the European Parliament

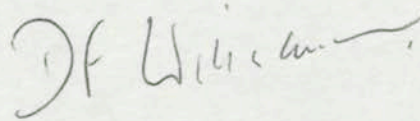
/to

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to put the financial provision for the United Kingdom refund in the reserve chapter of the Community budget. Similarly we are doing no more than offsetting the decision of other member states to block the regulations necessary for our refund."

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



D F WILLIAMSON

22 March 1984

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NICHAEAL BUTLER ON WITHOLDING.

105-121

ADVANCE COPY

PS.
PS/POS
SIR C TUCKER.

(7)

ECF0012/21

IMMEDIATE

~~MR. HANWAY~~

DD 211730Z FCO

MR HANWAY

GR800

Mr Williamson

CABINET OFFICE

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DESKBY 211730Z

mt

PS/CHANCELLOR } TREASURY
MR UNWIN

FM UKREP BRUSSELS 211550Z MAR 84

TO IMMEDIATE FCO

MR. Coles No. 10.

Dawling St

TELEGRAM NUMBER 1032 OF 21 MARCH

'SAFEGUARDING OUR POSITION' : TIMING OF LEGISLATION

1. I MENTIONED TO THE PRIME MINISTER IN THE CAR GOING TO THE AIRPORT THE ANXIETY I FEEL ABOUT THE CONSEQUENCES OF A DECISION TO LEGISLATE AT THE OUTSET. I AM SENDING THIS TELEGRAM SINCE THERE WAS NO TIME TO EXPLAIN MY THOUGHT FULLY.

2. LEGISLATION TO SET ASIDE THE EUROPEAN COMMUNITIES ACT, EVEN TEMPORARILY, WILL BE WIDELY REGARDED IN THE COMMUNITY AS UNDERMINING ITS CONSTITUTION, OVERTURNING THE RULE OF COMMUNITY LAW AND A CONFIRMATION OF THE DARK SUSPICIONS OF MANY 'EUROPEANS' ABOUT OUR COMMITMENT TO, AND FITNESS TO PARTICIPATE IN, THE MOVEMENT TOWARDS EUROPEAN UNITY. BOTH THE COMMISSION AND THE EUROPEAN COURT HAVE CONSISTENTLY, THOUGH TACITLY, SOUGHT TO AVOID PUSHING ANY MEMBER STATE SO HARD ON MATTERS OF COMPLIANCE WITH COMMUNITY LAW THAT THEY MIGHT FIND IT POLITICALLY IMPOSSIBLE NOT TO TAKE LEGISLATIVE ACTION TO FREE THEMSELVES OF ITS CONSTRAINTS. THEY RIGHTLY FEEL THAT IF ONE COUNTRY SETS A PRECEDENT OTHERS WILL FOLLOW IT. ALL OUR ALLEGED MISDEEDS IN THE PAST, SUCH AS NOT ACCEPTING COMMUNITY IDEOLOGY ABOUT NET CONTRIBUTIONS, WOULD PALE INTO INSIGNIFICANCE COMPARED WITH SUCH A BLOW TO THE COMMUNITY'S STILL RELATIVELY FRAGILE LEGAL AND CONSTITUTIONAL STRUCTURE.

3. MY COREPER COLLEAGUES, FOR EXAMPLE, ARE AT THE MOMENT RELAXED ABOUT THE POSSIBILITY OF OUR SAFEGUARDING OUR POSITION (I HOPE WE CAN ALWAYS USE THIS PHRASE AND NOT WITHOLDING) FOR WHICH I HAVE LONG BEEN PREPARING THEM. FRANCE AND BELGIUM HELD UP SOME OF THEIR PAYMENTS WHEN THEY DISAPPROVED OF THE 1982 BUDGET. OUR ACTION WOULD BE MORE SERIOUS BUT IS NOT DIFFERENT IN KIND. NEITHER AMONG THE PERMANENT REPRESENTATIONS NOR IN THE COMMISSION WILL THERE BE ANY MORAL SHOCK AT THE ACT OF TEMPORARILY BLOCKING TRANSFERS. I SHALL BE SURPRISED IF THERE IS ANY IMMEDIATE URGE TOWARDS RETALIATION OR ESCALATION OF THE DISPUTE IF WE PRESENT OUR ACTION IN A QUIET TONE AS THE MINIMUM NECESSARY TO SAFEGUARD OUR INTERESTS. THE SAME WILL NOT BE TRUE IF WE LEGISLATE.

OVER

4. THE COMMISSION WOULD BE BOUND BEFORE TOO LONG TO TAKE US TO

4. THE COMMISSION WOULD BE BOUND BEFORE TOO LONG TO TAKE US TO THE COURT. BUT TUGENDHAT MIGHT BE ABLE TO SLOW THINGS DOWN, E.G. BY ARGUING THAT THEY SHOULD ONLY INITIATE ACTION WHEN ONCE WE HAVE ACTUALLY REFUSED A TRANSFER AND THEN BY FOLLOWING THE PROCEDURES AT A PROPERLY DELIBERATE PACE. THE WAY WOULD THUS BE LEFT OPEN TO ACHIEVE A SETTLEMENT BEFORE THE ISSUE EVER CAME TO A CRUNCH.

5. I REALISE THAT WE WOULD PROBABLY HAVE TO SAY THAT WE WOULD IF ABSOLUTELY NECESSARY LEGISLATE. THIS WOULD INCREASE THE INDIGNATION BUT THE EFFECT WOULD BE FAR LESS. INDEED PARADOXICALLY THE THREAT OF LEGISLATION WOULD TEND TO MAKE THE COMMISSION MORE CAUTIOUS ABOUT PUSHING US INTO ACTUALLY DOING IT AND THEREFORE LESS LIKELY TO SEEK INTERIM MEASURES AT THE EUROPEAN COURT OR TO START TAKING RETALIATORY ACTION TO POSTPONE OR REDUCE COMMUNITY PAYMENTS IN THE UK.

6. I KNOW THAT YOU HAVE SET OUT THE ARGUMENTS ABOUT THIS FULLY YOURSELF AND SO I WILL NOT GO INTO THE QUESTION OF THE LIKELIHOOD OF ACTION IN THE UK COURTS IN THE EARLY STAGES. I WOULD, HOWEVER, LIKE TO COMMENT ON THE LINE THAT THE GOVERNMENT MIGHT TAKE IF ACCUSED, IN PARLIAMENT OR OUTSIDE, OF BREAKING THE LAW. I DO NOT SUGGEST THAT WE SHOULD ARGUE THAT OUR ACTION IS INDUBITABLY LEGAL. THAT WOULD BE SCARCELY CREDIBLE. BUT I DO THINK THAT A LEGAL DEFENCE CAN BE ERECTED ON THE BASIS OF THE FACTS IN THE DRAFT WHITE PAPER. WHEN CHALLENGED WE COULD TAKE THE LINE THAT:-

(A) THE COMMUNITY'S ACTION ON THE 1982 RISK SHARING MONEY WAS IN OUR VIEW ILLEGAL;

(B) ITS ACTION ON OUR 1983 REFUNDS CONTRAVENED AN AGREEMENT AND FRUSTRATED A LEGITIMATE EXPECTATION AND THAT, THEREFORE,

(C) OUR ACTION TO SAFEGUARD OUR INTERESTS IS A MINIMAL STEP NECESSARY TO OFFSET THE DELETERIOUS EFFECT ON US OF THESE ILLEGAL AND/OR IMPROPER ACTIONS.

WE COULD SAY THAT WE RECOGNISE THAT THE POSSIBILITY ARISES OF CHALLENGE BEFORE THE EUROPEAN COURT, THOUGH THE ONLY RIGHT AND PROPER WAY TO RESTORE THE POSITION TO NORMAL IS FOR THOSE LIKE THE FRENCH AND ITALIANS WHO HAVE FRUSTRATED THE IMPLEMENTATION OF THE AGREEMENT TO RECONSIDER THEIR DECISIONS AS SOON AS POSSIBLE. WE COULD ADD (A) THAT THE RIGHT WAY TO SETTLE THIS POLITICAL DISPUTE IS NOT TO GO TO COURT BUT TO GET BACK TO THE NEGOTIATING TABLE; AND (B) THAT IF WE WERE CHALLENGED IN THE EUROPEAN COURT WE SHOULD HAVE A DEFENCE TO OFFER AND, PENDING ANY JUDGEMENT, A UK COURT FACED WITH AN ACTION SHOULD REFER THE MATTER TO THE EUROPEAN COURT FOR A RULING. (IF WE WERE GOING TO DEFEND OURSELVES WE SHOULD SURELY HAVE TO SAY THAT WE HAD A DEFENCE TO OFFER RATHER THAN PLEAD GUILTY IN ADVANCE).

FCO ADVANCE TO:

FCO - PS, PS/PUS, TICKELL, HANNAY

CAB - WILLIAMSON

TSY - PS/CHANCELLOR, UNWIN

NO.10- COLES

BUTLER

Prime Minister

Ref.A084/912

A.S.C. 27/11.

PRIME MINISTERCabinet: Community Affairs

You will wish to give Cabinet your assessment of the European Council on 19-20 March and of the continued blockage by France and Italy of the regulations implementing the United Kingdom's 1983 budget refund which was agreed at Stuttgart. You may wish to stress that:

(i) after the first discussion the French Presidency produced a text which was acceptable to the United Kingdom on many major points, in particular the control of agricultural and other spending and the system for ensuring a fair sharing of the budget burden. Thus, substantial progress was made on budgetary discipline, budget imbalances, new policies and structural funds. The negotiation was set back by the Taoiseach's walk-out over their demand for a substantial concession on the milk superlevy. It then proved impossible to pin down an agreement on the system for ensuring a fair sharing of the budget burden and on the level of the compensation for the United Kingdom which would result from the system;

(ii) you were prepared to agree to a lasting system which would have given compensation to the United Kingdom of 1250 million ecu on 1983 figures, ie a net contribution of 663 million ecu. The system would have resulted in similar results in future years, depending on the United Kingdom's relative prosperity, ie it would normally have reduced our net contribution by about two-thirds;

(iii) a wrangle over German demands to be exempted from full payment of their share of the United Kingdom's compensation led eventually to proposals from them and others for ad hoc compensation to the United Kingdom of 1,000 million ecu a year for five years with a system thereafter. The Germans failed to respond to your offer

to agree an ad hoc compensation of 1,000 million ecu for 1984, provided that the lasting Presidency system (which would have given compensation of 1,250 million ecu on 1983 figures) were agreed and operated from 1985;

(iv) in the end you were faced with a situation in which:

(a) instead of a lasting, equitable system for Community financing there should be a five-year ad hoc arrangement which would have left the United Kingdom receiving less than the average refund which we received in the years 1980 to 1983;

(b) the United Kingdom should endorse an unsatisfactory and discriminatory arrangement for milk;

(c) the United Kingdom should accept an increase in the Community's VAT resources to 1.4 per cent in 1986 and have in prospect a possible further increase two years later to 1.6 per cent.

This was clearly not acceptable.

(v) On milk the Irish demand was that their base quantity on which the superlevy would not be charged should be above the level of their 1983 production, while United Kingdom and other farmers took a cut. A number of member states rejected this. The agricultural issues now go back to the Agriculture Council on 26-27 March. It is probable that the French Presidency will seek an agreement with the Irish and that it will wish to vote through the whole agricultural package.

2. The Foreign and Commonwealth Secretary will also wish to comment both on the European Council and on the action which we might now take. It may be argued that the elements on which there was considerable agreement will tend to slip away, as member states' attitudes become even more rigid or hostile in coming weeks. If we are minded to try to consolidate the ground

achieved in Brussels and make a further effort to reach a satisfactory agreement during the French Presidency (the Irish have the chair next), it could be useful (particularly if we are also proceeding to withhold in respect of the blocked refunds) for the Foreign and Commonwealth Secretary very quickly to reiterate to his counterparts in other member states the points on which in our view agreement had almost been reached and which we could accept, with a view to some understanding on at least those points at the next Council of Ministers (Foreign Affairs), and the resumption of progress on the negotiations in the coming weeks. If we take no action, the alignment of all other member states against the United Kingdom will intensify.

3. You will also wish to ask the Cabinet's view on the question of withholding Community funds as a response to the blocking of our 1983 refund. A separate brief is provided.

4. The Transport Council will meet on 22 March, and the Agriculture Council on 26-27 March, followed by an informal meeting of Agriculture Ministers on 28-30 March. The European Parliament will be in session on 26-30 March.

approved by ROBERT ARMSTRONG
and signed in his absence.

Lindsay Wilkinson

21 March 1984



CONFIDENTIAL

Prime Minister

Qz.03642

MR COLES

A.J.C. 29/3

BRIEF FOR THE PRIME MINISTER FOR CABINET, 22 MARCH

I attach the separate brief which we have promised on the question of "withholding" Community funds.

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

21 March 1984

CONQUEROR

CONFIDENTIAL

Qz.03642

WITHHOLDING COMMUNITY FUNDS

Brief for the Prime Minister for Cabinet, 22 March

1. Cabinet will need to consider the United Kingdom response to the continued blocking by France and Italy of the regulations necessary for the payment of the United Kingdom's 1983 refund of 750 million ecu net (about £450 million) agreed at Stuttgart. We do not consider the claimed link with the wider post-Stuttgart negotiation to be justifiable. The European Parliament has still not given an opinion on these regulations but may do so this week and has put the financial provision in the reserve chapter 100 of the budget.

2. There is no legal entitlement to the refund before 31 March but there are good precedents for the receipt of the bulk of the refund by that date. The Council, Commission and the Parliament all recognise the importance of the date to us. Council agreement on this point was entered in the Council minutes of 27 October 1980. This provision was honoured in respect of UK refunds covering 1980, 1981 and 1982. At no stage, until the last week, has any member state challenged this provision. The extent to which it is an accepted provision of the refund agreements is borne out by the Resolution adopted by the European Parliament at its session on 15 December 1983 in which the Parliament expressed the view that a final decision on the question of 1983 refunds "must be made before 31 March 1984 to avoid discrimination against any of the member states".

3. The first question to consider is whether withholding is the right response to the present situation. Withholding would create the sharpest conflict within the Community since the French withdrawal from the negotiating table in 1965. The consequences for our relations with other member states are unforeseeable

but will certainly be difficult. Withholding would be illegal in Community and (until we legislate) in domestic law. It would probably make it harder to get a satisfactory settlement in the short term. The first reaction in the Community might be the withdrawal of the Presidency's document which was on the table at the European Council. On the other hand, it would demonstrate clearly the Government's determination not to allow the present inequitable situation to continue and, domestically, it would demonstrate the Government's determination to secure both the refunds we have been promised and an end to the present inequity.

4. Secondly, if the Government does decide to withhold, it will need to make its intentions clear both as to the purpose of withholding and as to the amount that it intends to withhold. In order to reduce the reaction, the Government would need to make clear that withholding is a measured response to the unjustified blocking of the 1983 refund and not a decision to retaliate in general against Community policies; that we are in effect doing no more than putting the transfer of funds into suspense in the same way as both the European Parliament and the blocking member states have put our 1983 refund into suspense; and that the action is necessary to avoid the possible transfer of the Community's financial provision for our refunds to other uses such as the spiralling agricultural payments. The United Kingdom would be taking "offsetting" action because of the blocking of the 1983 refunds. On the amount, the Government could announce that it intends to secure the suspension of transfer of funds equivalent to the full gross amount outstanding on ¹⁹⁸³ refunds (about £570 million). This will, in any event, take some time and would not be completed before the June European Council. It would not seem necessary, therefore, to speculate now on what might happen later if there were no agreement in June. A subsidiary point would be whether the Government announces that it is also withholding the disputed element from the 1982 refund (the £42 million). In order to achieve the withholding of the amount equivalent to our 1983 refund, the United Kingdom would in any event be withholding all the own resources (other than those spent in the United Kingdom itself) for many months. It may not therefore be necessary to comment /publicly

CONFIDENTIAL

publicly at this stage on whether the £42 million will or will not be covered in due course by continued withholding when the 1983 refund has been accumulated.

5. Thirdly, there is the difficult question of the timing of legislation. The Foreign and Commonwealth Secretary, who will be supported by some other Ministers, continues to take the view that there would be substantial advantage if legislation at the outset can be avoided because the act of legislating would be seen in the Community as considerably more provocative than the act of withholding itself. It might seem to other member states to mark a definitive change in our relations with the Community since it would involve the partial setting aside of the application of Community law. If the Government were to decide to withhold but not to legislate immediately, they would need to make clear that they would not hesitate to legislate if challenged in domestic law. Other Ministers may favour immediate legislation. In the view of the Law Officers withholding without legislation would be illegal in domestic law as well as in Community law. It was also argued in OD that legislation at the outset would signal the Government's firmness of purpose.

6. If the Government does decide to legislate at the outset, the business managers will need to decide how quickly legislation could be taken through both Houses of Parliament. The Foreign and Commonwealth Secretary has alerted the Lord Privy Seal and the Lord President of the Council to the possible need for legislation in the week beginning 2 April. The draft bill and its handling in Parliament could be considered at a meeting of the Legislation Committee on 28 March.

7. You will also wish to decide what further consideration may be needed by Cabinet, even if a decision of principle is taken on 22 March. It is recommended that the Foreign and Commonwealth Secretary (in agreement with the Chancellor of the Exchequer) should submit a paper on all the associated issues for the Cabinet next week.

/8.

8. A relevant but less important point is the Commission's request for advance payment of own resources on 30 March. A decision is desirable tomorrow on whether the Government should now refuse the Commission's request for advances.

Cabinet Office

21 March 1984

When the Defence and Overseas Policy Committee (OD) considered withholding at OD(84)3rd Meeting it provisionally concluded that:

- (i) if the Government were to decide to withhold Community funds, withholding should be limited to restricting payments out of the Commission's account (to prevent them transferring money overseas, but to allow them to continue to make payments to United Kingdom recipients of Community funds), but should hold in reserve the possibility of restricting payments in to the account in order to allow the Government to counteract any retaliation by the Commission;
- (ii) when legislation was required a single Bill should be brought forward allowing the Government to suspend transfers of Community funds and ousting the jurisdiction of the Courts to consider whether the Government was in breach of its Community obligations as a result of withholding, and that it would probably be appropriate for the Secretary of State for Foreign and Commonwealth Affairs and the Attorney General to be responsible for its passage through the House of Commons;
- (iii) the Government should be prepared to defend itself vigorously before the European Court of Justice but should not itself initiate legal proceedings;
- (iv) while the Government should seek to dissuade the Community from retaliating against United Kingdom recipients of Community funds it should be prepared to take over the Commission's role in the event of retaliation.

It should be noted that the effect of (i) above (restricting payments out of the account by suspending payments across the exchanges) would allow some £100M a month to accumulate in the account in addition to normal balances. At this rate it would take about six months to accumulate the agreed 1983 refunds in the account.

COPIES

FRAME: GENERAL

23

REMARKS

FCO
PS/LADY YOUNG
PS/MR RICHARD
PS/FUS
SER. C TICEYLL
MR FARRAY



~~SECRET~~
ED/EDD (1) (3)
ED/NEFS
UD/
UD/
UD/

Mr Hosi

ms

CABINET OFFICE
MR D WILLIAMSON
MR STAPLETON
MISS S J LAGRETT
MR DUNN

DOT 1310
MR R GRAY
MR R WELLS (WEG)

FUS OGD

HM TREASURY
MR J G LITTLER
MR J B UNWIN
MISS JE COURT

MAFF
PARLIAMENT SECRETARY
Mr Franklin
Mr Andrews

1010
Mr Coles

CONFIDENTIAL
FRAME GENERAL

FROM UKREP BRUSSELS 211425Z MAR 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1027 OF 21 MARCH 1984

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN

LUXEMBOURG ATHENS

INFO SAVING LISBON MADRID STRASBOURG WASHINGTON

Prime Minister

Richard Butler's assessment
and judgment as to the next
steps. A.D.C. 2/3

EUROPEAN COMMUNITY STRATEGY

1. THE EUROPEAN COUNCIL FAILED YESTERDAY AS MUCH BECAUSE SOME OF THE OTHER LEADERS DID NOT UNDERSTAND THE ISSUES AND HAD NOT THOUGHT THROUGH THE CONSEQUENCES AS BECAUSE THEY WERE DETERMINED TO PROTECT THEIR NATIONAL INTERESTS AND THEIR POLITICAL POSITION AT HOME.

2. IT HAD BEEN CLEAR SINCE ATHENS THAT PRESIDENT MITTERRAND'S PLAN WAS EITHER TO 'SAVE EUROPE' BY AN AGREEMENT OR TO BLAME THE UK. IN MY VIEW, HE WAS STILL ON THIS DOUBLE TRACK YESTERDAY MORNING. BY ALLOWING DUMAS TO SETTLE ALL OUTSTANDING POINTS ON THE

~~WORKING~~. BY ALLOWING DUMAS TO SETTLE ALL OUTSTANDING POINTS ON THE TEXT ON BUDGETARY IMBALANCES WITH US AND THEN BY TABLING IT AS A PRESIDENCY PROPOSAL AFTER LUNCH, HE WENT FURTHER THAN HE NEED HAVE DONE TO MEET US IF HE HAD DECIDED THAT AGREEMENT WAS NOT GOING TO BE REACHED. (SUCH EXPERIENCED OBSERVERS AS NOEL AND DAVIGNON WERE SAYING AFTER LUNCH THAT THE UK HAD FINALLY GOT ITS WAY ON THE CORRECTING MECHANISM AND THE COMMISSION SPOKESMAN WAS SAYING AS MUCH TO THE PRESS). BUT WHEN MITTERRAND DID COME TO THE CONCLUSION IN MID-AFTERNOON THAT AGREEMENT WAS GOING TO ELUDE HIM HE REVERTED TO HIS SECOND OPTION.

3. THE GERMANS BORE A LARGE SHARE OF RESPONSIBILITY FOR THE FAILURE. KOHL DID NOT SEEM TO UNDERSTAND THE GREAT MERITS OF THE SYSTEM FROM THE GERMAN POINT OF VIEW. HE WAS ABSOLUTELY DETERMINED NOT TO GO BEYOND 1,000 MILLION ECUS REFUND IN REGARD TO 1984. AND HE IGNORED TIETMEYER'S ADVICE TO GIVE SUPPORT TO THE PRIME MINISTER WHEN SHE PUT FORWARD TIETMEYER'S OWN IDEA OF A 1,000 MILLION ARBITRARY REFUND IN 1984 AND A SYSTEM BASED ON A REFUND OF 1,250 MILLION (IN RELATION TO THE 1983 FIGURES) FOR 1985 AND LATER. HE OUGHT TO HAVE KNOWN THAT THE PRIME MINISTER COULD NOT POSSIBLY ACCEPT AN ARBITRARY 1,000 MILLION ECUS FOR FIVE YEARS. THE EXTENT TO WHICH HE WAS RESPONSIBLE IN HIS BREAKFAST MEETING WITH MITTERRAND, FOR BRINGING THE LATTER BACK FROM THE 1100 MILLION OFFER OVERNIGHT, IS NOT CLEAR. BUT MY STRONG IMPRESSION WAS THAT MITTERRAND WOULD HAVE BEEN PREPARED TO GO TO 1200 MILLION WITH THE SYSTEM.

4. THE ITALIANS BORE THEIR SHARE BY REFUSING TO ACCEPT THE SYSTEM, THOUGH ANDREOTTI'S OFFICIALS MADE EVERY EFFORT TO PERSUADE HIM TO DO SO. THE IRISH, WITH THEIR WALK-OUT ON THEIR SEPARATE MILK PROBLEM, ALSO CONTRIBUTED TO THE FAILURE. IN THE LATE AFTERNOON THE FEELING BEGAN TO SPREAD THAT IT WAS HARDLY WORTH MAKING A MAJOR EFFORT ON THE OTHER ISSUES IF FITZGERALD WAS TO CONTINUE TO SULK IN HIS TENT.

5. FINALLY, THE FRENCH AND THE ITALIAN'S ACTION IN BLOCKING OUR 1983 REFUNDS WAS ALMOST CERTAINLY MORE DESIGNED TO AVOID CRITICISM OF WEAKNESS AT HOME THAN PART OF A PLAN WITH REGARD TO THE LIKELY CONSEQUENCES. IT MAY BE THAT PRESIDENT MITTERRAND AND SOME OF HIS ADVISERS THINK THAT IT MAY BE POLITICALLY HELPFUL TO THEM IN THE SHORT TERM TO FORCE US TO "SAFEGUARD OUR POSITION". BUT I DOUBT VERY MUCH WHETHER THEY HAVE A CLEAR IDEA OF WHERE THEY ARE GOING.

6. THE PRIME MINISTER'S STATESMANLIKE LINE AT HER PRESS CONFERENCE LAST NIGHT HAS BEEN WIDELY NOTED HERE AND FAVOURABLY

~~6. THE PRIME MINISTER'S STATESMANLIKE LINE AT HER PRESS CONFERENCE LAST NIGHT HAS BEEN WIDELY NOTED HERE AND FAVOURABLY COMMENTED ON BY ALL THOSE TO WHOM I HAVE SPOKEN. IT IS IN MY VIEW ESSENTIAL TO TRY TO KEEP TO THE LINE THAT WE ARE TRYING TO GET A SETTLEMENT BEFORE JUNE AND, IN SO FAR AS WE HAVE TO ACT TO PROTECT OUR POSITION, THAT WE ARE RESPONDING TO ACTION TAKEN BY THE OTHER SIDE.~~

7. ON THE ASSUMPTION THAT CABINET TOMORROW DECIDES IN PRINCIPLE TO BLOCK A TRANSFER OUT OF THE COMMISSION'S BANK ACCOUNT IN LONDON UNTIL OUR POSITION IS PROTECTED, I RECOMMEND THAT YOU SEND A MESSAGE TO THE PRESIDENCY AND YOUR COMMUNITY COLLEAGUES (INCLUDING THORN AND TUGENDHAT):-

(I) EXPLAINING OUR ACTION IN A LOW-KEY AND MODERATE WAY:

(II) SUMMARIZING THE PROGRESS ALREADY MADE:

(III) PROPOSING THAT THERE SHOULD BE A FURTHER MAJOR EFFORT TO SETTLE THE OUTSTANDING ISSUES AT THE FOREIGN AFFAIRS COUNCIL ON 9 APRIL PERHAPS AFTER PREPARATION BY A SPECIAL GROUP IN COREPER:

(IV) INDICATING THAT FOR OUR PART IT IS VERY MUCH A CASE OF BUSINESS AS USUAL OVER THE REST OF COMMUNITY ACTIVITY.

I FEAR THAT THIS WILL NOT IN FACT PRODUCE RESULTS BUT IT MAY BE WORTH MAKING A RATHER WELL-PUBLICISED GESTURE OF THIS KIND TO FOLLOW UP THE PRIME MINISTER'S PROPOSAL AT THE EUROPEAN COUNCIL THAT FOREIGN MINISTERS SHOULD TRY TO SETTLE THE REMAINING ISSUES IN APRIL.

FCO ADVANCE TO:-

FCO - PS PS/MR RIFKIND PS/PUS TICKELL HANNAY

CAB - WILLIAMSON STAPLETON DURIE

MAFF - FRANKLIN ANDREWS

TSY - UNWIN

NO10 - COLES

FCO PASS SAVING TO LISBON MADRID STRASBOURG WASHINGTON

BUTLER

NNNN

RWS

CEPC



Foreign and Commonwealth Office

London SW1A 2AH

21 March 1984

A.F.C. 2/3

f.a.

Dear Sir,

Interest on Non-Payment of Advance of Own Resources in 1983

Thank you for your letter of 14 March enclosing a draft reply to Mr Tugendhat's letter of 6 January to Sir Geoffrey Howe about the Commission's claim for interest on an advance of own resources which the UK did not pay last May because of the General Election. The Foreign and Commonwealth Secretary is content that this reply should be sent by Sir Michael Butler.

On the question of timing, I understand that it was agreed between officials that the reply should not be sent until today in case other Member States get wind of our detailed arguments against the binding nature of Article 10(2) of the Own Resources Decision before the advances requested for 30 March have been paid, thus frustrating our refunds. (I understand that the Commission agreed that we could delay our reply until 21 March without weakening our position but that after that we would need to seek a form of extension of the time limit.) In the light of the outcome of the European Council we do not consider that the reply need be further delayed.

I am copying this letter to John Coles (No 10), David Williamson (Cabinet Office), Henry Steel (Attorney General's Chambers), Mr Preston (Treasury Solicitor's) and Mrs Duncan (Lord Advocate's Office).

John Coles

(R. B. Bone)
Private Secretary

A M Ellis Esq
HM Treasury

22 MAR 1994

10 11 12
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10 DOWNING STREET

From the Private Secretary

Prime Minister

Meeting with the Chancellor

The Chancellor would like to discuss the follow-up to the European Council

- (i) setting the result of a settlement is reached
- (ii) the Government's response if it is not.

You may like to ask the Chancellor if there have been any difficult responses to the Budget.

HT

20/3



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

PRIME MINISTER

WITHHOLDING: USE OF SUSPENSE ACCOUNT

As OD on 22 February I undertook to consider again the possibility that, in the event of withholding, we might make our "own resource" payments into a special suspense account, rather than into the EEC Number 1 account as envisaged in our contingency plans.

2. The possible presentational advantages of this course are that:-

- (a) we might be able to argue that we were following the precedent of December 1982, when, following the European Parliament's rejection of the 1982 supplementary Budget, the Commission set up a special EEC Number 3 account for our refunds; and
- (b) the accumulating refunds might be more readily and publicly identifiable.

3. However, I rather doubt whether these considerations would carry much weight in the circumstances envisaged. And there are some formidable arguments against setting up of the special suspense account; viz:-

- (a) the events of December 1982 do not constitute a real precedent since what happened then was on the initiative, and with the full consent, of the Commission.
- (b) To switch the accumulating refunds into a special suspense account in the Commission's name, instead of leaving them in the EEC Number 1 account, would require either withholding payments into the No.1 account or making special transfers from it into the suspense account without the approval of the Commission. This would be an additional disturbance to existing arrangements, whereas our aim should I believe be minimum disturbance.

cc NO
AF
1) Mr Tumbull
2) Prime Minister (1)
The Chancellor concludes against a special suspense account if we have to withhold. He suggests a special category within the EEC No1 accounts for blocked payments. Content, subject to colleagues?

DMB
1/13

Yes not



- (c) To make payments into a special suspense account without a request from the Commission would certainly require legislation. It would not therefore be possible if we were withholding without prior legislation. And if we had decided to legislate, we would do well to avoid this unnecessary complication in the Bill.

4. It seems to me that these objections outweigh the possible advantages. I therefore conclude that we should continue to base our contingency plans on the blocking of payments out of the EEC No.1 account in the first instance, rather than transferring sums from that account to a special suspense account. Nevertheless, there may be presentational advantages in identifying within the No.1 account the sums that have been withheld, perhaps by describing it as the equivalent of the reserve "Chapter 100" in the Community's own Budget.

5. Copies of this minute go to the Foreign Secretary, to other members of OD and to the Attorney General.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

N.L.

16 March 1984

9 1984

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FILE
de

10 DOWNING STREET

From the Private Secretary

16 March 1984

Economic and Social Committee : Letter from
M. Ceyrac to the Prime Minister

Thank you for your letter of 16 March.
As I told you on the telephone, the telegram
which you enclosed may be despatched but I
should be grateful if you would first delete
the second sentence of the proposed reply from
the Prime Minister to M. Ceyrac.

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

ds

wpc

Foreign and Commonwealth Office

London SW1A 2AH

16 March 1984

N. Pender

A.C. 16/3

New David,

TR 16/3

EC Budget: Contingency Planning for Withholding

As you know, contingency plans have been prepared against the possibility that we do not receive the bulk of our refunds for 1983 by the end of March. The purpose of this letter is to draw attention - without suggesting any firm conclusion at this stage - to the possible Parliamentary implications for the period beginning 26 March.

The outcome of the European Council in Brussels on 19/20 March will be critical. If it goes reasonably well, the Council and the European Parliament will probably take the necessary steps to enable the bulk of our refunds to be paid to us by the end of March. If it goes badly, our refunds may remain blocked either in the Council by the French and Italians or in the Parliament and we will need to consider the steps necessary to safeguard our position.

The outcome of the Council will doubtless be discussed in Cabinet on 22 March. Sir Geoffrey Howe's view is that even if the Council goes badly, it is likely to be too early to take a final decision then on the form of action we might take. Sir Geoffrey believes that it would be better to take a final decision during the week beginning the 26th. This would allow time to take account of the European Parliament's consideration of our refunds which - if they are to be approved - would probably take place by, at the latest, early that week. It would also allow time for the outcome of the Council to be assessed and for papers to be prepared.

If we do decide to withhold, Cabinet will need to decide whether or not to legislate at the outset. There has already been some discussion by Ministers about this, in which Sir Geoffrey Howe has taken the view that there would be substantial advantage to us if legislation at the outset can be avoided. The LPS and Lord President's Office may nevertheless wish to bear in mind the possibility of the need for legislation at the outset, and of the requirement, if this happens, for the Bill to be passed by both Houses with a minimum of delay.

/There is



There is also the separate question of the Parliamentary handling of the supplementary estimate and the Consolidated Fund Bill, in response to the Commission's request for advance payment, which the Cabinet agreed on 15 March should be debated in the House on 28 or 29 March. This will clearly need to be taken into account in considering how to handle any possible decision to withhold.

In view of its sensitivity, copies of this letter go only to John Coles at No 10, and to the Private Secretaries to Lord Whitelaw, the Attorney General, the Chancellor, the Chief Whip, Lord Denham and to Sir Robert Armstrong.

Yes
R B Bone

(R B Bone)
Private Secretary

David Heyhoe Esq
PS/LPS

Ohio Budget

16 JUN 1984



BW.



Foreign and Commonwealth Office

London SW1A 2AH

16 March, 1984

John Taylor

Economic and Social Committee: Letter from M. Ceyrac to
the Prime Minister

/ I enclose the text of a letter which the President of the Economic and Social Committee, M. Ceyrac, has asked Sir Michael Butler to convey to the Prime Minister.

M. Ceyrac writes to emphasise the importance of the Community to the future of Europe's workers, businessmen and consumers; the need to take the urgent decisions facing the Community without delay and to avoid its collapse; and the support which 'those in positions of political responsibility' can rely on from the Community's social and economic interests, for the work ahead at the Council, where the public expects the necessary bold decisions to be taken.

/ The terms of the letter suggest that it may have been sent to other EC Heads of Government as well. In the circumstances, we recommend that Sir Michael Butler conveys a brief message on behalf of the Prime Minister in reply, as set out in the enclosed draft telegram.

I should be grateful to know whether the Prime Minister is content with this. It would be preferable for the message to reach M. Ceyrac before the Council.

Handwritten signature of R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

11.56 G
24312 ukecbr b
25983 ceseur b

Hofc / PRIVATE OFFICE

brussels 14/3/1984
telex nr 1294

his excellency
sir michael butler, kcmg,
ambassador
permanent representative of the
united kingdom to the european communities

19/18
NMT

i should like you to forward the following letter to the
prime minister.

the rt. hon. margaret thatcher, m.p.

dear prime minister,

after the setback of the athens summit, the economic and
social committee appealed to all socio-professional organiza-
tions in the member states to rally in defence of the construc-
tion of europe.

the unprecedented response to this appeal has highlighted
the firm commitment of what are called the community's "life
forcee" to this grand design. the community's influence on the
entire socio-economic fabric is so deep-rooted that it has now
become indispensible.

after the athens summit the esc declared that the economic
and social interest groups were not prepared to give up on the
community. today, it can safely say right out that they are
unable to do so without vehaking the very foundations on which
their plans, development and future have ben built for many
years.

HL Marton
for action please
I should be instructed
to send a

← No more text on original

consequently, on the eve of a particularly crucial

meeting, the esc - which has consistently focussed its attention on practical issues affecting the spheres for which it is specifically responsible - is now deliberately tackling a really fundamental issue.

the community has reached a stage in its development where even the most routine aspects of its existence depend on highly political

decisions, failure to take these decisions could mean the collapse of the entire community edifice constructed over the past 25 years.

in addressing itself to the heads of state or government, the esc's intention is to state its views on (a) the key issues at stake in industry, agriculture, trade, the crafts and the professions, and (b) the urgency of the decisions that must be taken.

the future of millions of workers, businesses and consumers throughout the eec is at stake.

workers look to job security and their living standards, businesses are concerned about their capacity to compete, in short their survival in the teeth of international competition, the consumer's main anxiety is to protect purchasing power, all of them care deeply about their own and their children's freedom.

the decisions required are becoming increasingly urgent as the recession cuts deeper day by day, calling

for changes (sometimes radical changes) in structures and strategies. deadlines must be set, as in the case of enlargement of the eec, which cannot and should not be put off any longer.

in the face of this situation, the esc feels able to assure those in positions of political

responsibility that they can count on the full backing of europe's organised interest groups in taking the bold decisions that the general public expects from them and in their efforts to rise above national or corporate conflicts of interest.

o

yours sincerely,


francis de launay
of the economic and social committee

++++

24312 ukecbr b

25983 ceseur b


OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	UNCLASSIFIED	IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	UNCLASSIFIED
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO MARCH 84
PRE/ADD	7	TO IMMEDIATE UKREP BRUSSELS
TEL NO	8	INFO EC POSTS
	9	ECONOMIC AND SOCIAL COMMITTEE: LETTER TO THE PRIME MINISTER
	10	FROM M. CEYRAC
	11	1. Your mufax to Wall of 14 March, setting out text of
	12	letter from Ceyrac to the Prime Minister, refers.
	13	2. The Prime Minister has agreed that you should convey the
	14	following message to Ceyrac in reply:
	15	BEGINS:
	16	I have been asked by the Prime Minister to thank you for
	17	your letter to her of 14 March. The Prime Minister has taken
	18	careful note of what you say. She wishes to convey her thanks
	19	for the message of support from the Community's social and
	20	economic interests for tackling the urgent decisions which lie
	21	ahead at the Council. She fully shares your desire to get
///	22	agreement urgently on solutions to the deep-seated structural
//	23	problems of the Community, so that the Community can turn its
/	24	energies to promoting a better future for all of its members.
	25	That objective will be pursued vigorously by the UK at the

NNNN ends telegram	BLANK	Catchword Council
File number	Dept Private Office	Distribution
Drafted by (Block capitals)		
Telephone number		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

	Classification and Caveats		Page
	UNCLASSIFIED	IMMEDIATE	2

<<<< 1 <<<<
 2 Council.
 3 ends
 4 3. The message should if at all possible be conveyed to
 5 M. Ceyrac before the start of the Council.
 6
 7 HOWE
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NNNN ends telegram	BLANK	Catchword
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~~Proposed~~

Proposed solution for Ireland

Irish quota for 1984/5	4606	000 tms
Irish production in 1983	5280	
<u>∴ additional quota for 1984/5</u>	<u>674</u>	

Reserve of 600,000 tms
foreseen for

Italy	356 000 tms
Greece	25 000
	<hr/>
	381,000

∴ available for
Ireland (and
Northern Ireland) say, 200,000

∴ extra quota for Ireland 474,000

- ① Northern Ireland should get an additional 90,000
- ② Such a significant discrimination in favour of Ireland
only defensible if we have secured the best variable premium

Irish Solution

~~Proposed text~~
Proposed text

" An exception is made for Ireland on the following basis:

(i) Ireland is authorised in 1984 to maintain her production at the 1983 level. Any excess will be subject to the levy.

~~This~~ (ii) this derogation in no way prejudices the disposition which will be made in 1984 and 1985

(iii) the balance of the reserve will be ~~also~~ divided by the Commission on the quantities foreseen for 1984 "

Suggested counter-text

Ireland is authorised for 1984/5 to maintain her production at the 1983 level.

Any excess will be ~~of~~ subject to the levy. This derogation ~~will~~ in no way prejudges ^{any} the dispositions which could be made ~~is~~ for 1985/6. An equivalent authorisation is accorded to Northern Ireland.

The quantities necessary to cover the above authorisation for Ireland + Northern Ireland will be found to the maximum extent possible from within the reserve of 600,000 tons.

The beef variable premium is maintained for the 1984/5 season

RESIDENT CLERK PLUS FCO
ED/ECD (I) (3)
ED/NEWS D
ED/MD
ED/
ED/
ADVANCE COPY
IMMEDIATE

CABINET OFFICE DOT PLUS OGD
MR D WILLIAMSON
MR G STAPLETON
MR J N PEARSON
MR D R C DURIE
MR P KENT
E M CUSTON
MORISE

HM TREASURY MAFF PERMANENT SECRETARY
MR J B UNWIN
MISS J E COURT
MR J G LITTLE
MR J E MORTIMER

CONFIDENTIAL
FRAME ECONOMIC
DESKBY 151145Z
FM PARIS 151118Z MAR 84
TO IMMEDIATE F C O
TELEGRAM NUMBER 354 OF 15 MARCH
INFO PRIORITY UKREP BRUSSELS,
INFO ROUTINE OTHER EC POSTS.

mf

EUROPEAN COUNCIL: FRENCH APPROACH

SUMMARY

1. THE FRENCH NOW SEE THE EUROPEAN COUNCIL AS ESSENTIALLY A CONTEST WITH THE UK OVER BUDGET REFUNDS. MITTERRAND HAS RETAINED FLEXIBILITY OVER WHETHER AND WHERE TO STRIKE A BARGAIN. HE WOULD LIKE A SUCCESS BUT PROBABLY RECKONS THAT THE ALTERNATIVE STRATEGY OF ISOLATING AND PILLORYING THE UK WOULD GO DOWN QUITE WELL IN FRANCE.

DETAIL

2. THE FRENCH HAVE SUCCEEDED IN CLEARING AWAY MANY OF THE SUBSIDIARY ISSUES SO THAT NEGOTIATION AT THE EUROPEAN COUNCIL CAN FOCUS ON THE LEVEL OF UK REFUNDS. FOLLOWING THE APPARENT WEAKENING OF DELORS' INFLUENCE OVER THE FRENCH NEGOTIATING HAND THEY APPEAR CONTENT WITH A FAIRLY LOOSE FORMULA FOR THE CONTROL OF FUTURE EXPENDITURE - THE BUDGET GUIDELINE - AND WITH A PROSPECTIVE INCREASE IN THE VAT CEILING GOING BEYOND 1.4 PER CENT. MITTERRAND WILL BE SATISFIED TO STAY IN THE MIDDLE OF THE PACK ON THESE ISSUES. ON THE VAT CEILING IT MIGHT SUIT HIM TO SECURE A DECISION OF PRINCIPLE FOR AN INCREASE, LEAVING THE FIGURE TO BE FILLED IN LATER IN THE LIGHT OF DECISIONS ON AGRICULTURE ETC - A SORT OF BLANK CHEQUE.

3. MITTERRAND WILL COUNT ON A SOLID FRONT AGAINST THE UK FOR EXCLUDING LEVIES AND DUTIES FROM THE CALCULATION OF THE NET CONTRIBUTION. HE WILL ENCOURAGE OTHERS TO JOIN HIM IN CONCENTRATING ON THE SIZE OF THE REFUND RATHER THAN ON THE RESIDUAL CONTRIBUTION. HE WILL LOOK FOR THE BARGAINING TO START AT SOMETHING LIKE 700 MECU VERSUS 1600 MECU. HE WILL EXPECT TO HAVE THE DECISIVE VOICE IN

~~HE WILL EXPECT TO HAVE THE DECISIVE VOICE IN~~
DETERMINING HOW HIGH THE OFFER OF THE NINE SHOULD BE RAISED, THOUGH HE WILL MAKE FULL USE OF THE RELUCTANCE OF THE ITALIANS AND PERHAPS OTHERS TO GO VERY FAR. IT WILL NOT BE POSSIBLE TO JUDGE IN ADVANCE WHERE HIS LIMIT MAY LIE. ONE ELEMENT IN THE CALCULATION MUST BE WHAT THE GERMANS WILL BEAR WITHOUT INSISTING ON A REFUND THEMSELVES. BUT IT WILL DEPEND IN LARGE PART ON THE FRENCH ASSESSMENT OF HOW THE CAP WILL OPERATE IN THE ABSENCE OF AN AGREEMENT ON OWN RESOURCES, FOR HOW LONG AND WITH WHAT ALTERNATIVES IN VIEW. THE FRENCH MUST HAVE LOOKED INTO THIS ABYSS BUT HAVE NOT REVEALED IF THEY SEE SOME WAY ROUND IT.

4. MITTERRAND WOULD LIKE A SUCCESS AT THE COUNCIL. IT WOULD RAISE HIS STATURE DOMESTICALLY AND INTERNATIONALLY AS THE MAN WHO "SAVED EUROPE" AND POINT THE CONTRAST WITH THE LAST PRESIDENCY. HIS CURRENT STANDING IN THE POLLS IS AT ITS LOWEST EVER: HIS PARTY IS HEADING FOR A PROBABLE SETBACK IN THE EUROPEAN ELECTIONS; HE FACES DIFFICULTIES OVER INDUSTRIAL RESTRUCTURING AND EDUCATIONAL REFORM; THERE MAY BE VIOLENCE FROM FARMERS OVER PROMISED CUTS IN MILK PRODUCTION AND OVER ENLARGEMENT OF THE COMMUNITY. HIS POSITION IN LEBANON AND CHAD IS STILL EXPOSED. IT WOULD BE A GOOD MOMENT FOR HIM TO BRING HOME A RESOUNDING SUCCESS FROM BRUSSELS.

5. ON THE OTHER HAND THE OPPOSITION AND VARIOUS PRESSURE GROUPS ARE WAITING TO GET AT HIM IF HE CAN BE HELD TO HAVE GIVEN TOO MUCH AWAY. HE IS TO SOME EXTENT THE PRISONER OF POSITIONS HE HAS TAKEN PUBLICLY IN THE PAST AND I AM NOT SURE THAT HE HAS GRASPED EVEN NOW THE NECESSITY FOR A GENUINELY EQUITABLE LONG-TERM SETTLEMENT; HE STILL FOCUSSES ON HOW MUCH HE AND OTHERS ARE CONCEDED IN RELATION TO EXISTING ARRANGEMENTS. MOREOVER THE ALTERNATIVE STRATEGY OF DENOUNCING THE UK FOR OB DURACY AND FOR PUTTING THE FUTURE OF THE COMMUNITY IN DANGER WOULD ALSO HAVE ITS DOMESTIC ATTRACTIONS. THERE IS A FLOOD OF ANTI-BRITISH SENTIMENT WHICH CAN READILY BE UNLEASHED AND EXPLOITED. WITH THE GOVERNMENT AND OPPOSITION OUT-BIDDING EACH OTHER A GOOD DEAL OF BITTERNESS COULD EASILY BE AROUSED AND FOR A TIME AT LEAST IT WOULD APPEAR ATTRACTIVE TO BE ACTING AS IF THE AIM WERE TO RUN THE COMMUNITY WITHOUT THE UK. THERE WOULD BE A STRONG TEMPTATION TO RAIL-ROAD THROUGH DECISIONS ON VARIOUS MATTERS, INCLUDING AGRICULTURAL PRICES, BY MAJORITY VOTE.

6. I CANNOT JUDGE HOW REALISTIC SUCH A STRATEGY MIGHT BE, OR FOR HOW LONG, IN THE ABSENCE OF AGREEMENT ON ANY INCREASE IN OWN RESOURCES, BUT IT WOULD BE AN ALTERNATIVE WAY FOR MITTERRAND TO LOOK TOUGH AND EFFECTIVE AT LEAST UP TO THE EUROPEAN ELECTIONS. IF AGRICULTURAL FUNDS WERE INEXORABLY DRYING UP, HIS LAST STATE WOULD BE WORSE THAN HIS FIRST, BUT HE MIGHT MANAGE TO COOK UP WITH KOHL SOME ARRANGEMENT FOR TEMPORARY FUNDING IN ORDER TO AVERT AN IMMINENT THREAT TO THE OPERATION OF THE CAP AND THEREBY BUTTRESS HIS POSITION FOR FURTHER BARGAINING. IN GENERAL HE WILL BE WELL CONTENT AT THE WAY IN WHICH KOHL APPEARS TO BE FOLLOWING IN THE FOOTSTEPS OF PREVIOUS CHANCELLORS IN GIVING OVERRIDING PRIORITY TO GOOD RELATIONS WITH FRANCE WITHIN THE COMMUNITY AT SOME COST TO GERMAN INTERESTS AND NO COST TO FRENCH. THE TOUGHNESS OF HIS BARGAINING STANCE WILL BE INFLUENCED BY HIS CONFIDENCE THAT THE GERMANS WILL STAND WITH HIM IN DEALING WITH A COMMUNITY CRISIS IF ONE ARISES.

FRETWELL

CCRB

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The situation in 1983

The United Kingdom's net contribution in 1983,
before adjustment, was 1913 million ecu
(£1115 million)

The United Kingdom's actual net contribution
in 1983, adjusted by the ad hoc
1983 refund, was 1163 million ecu
(£675 million)

If we deduct from the United Kingdom's net
contribution in 1983 the average refund
obtained under the 4 year ad hoc
arrangements, the result is 791 million ecu
(£480 million)

(The 4 year average of the United Kingdom's net contribution
to the Community budget, after receipt of refunds, over
the period 1980-83 was about 598 million ecu
(£350 million))

1913
1200
713

The United Kingdom's safety net proposal, if applied to 1983

The United Kingdom's adjusted net contribution, if the new fair sharing arrangement (safety net) had applied in 1983, would have been -

- 12.
- (a) 206 million ecu [UK safety net proposal]
- (£120 million)
- (b) 533 million ecu [UK safety net proposal, using
- (£310 million) relative prosperity index of
- Community of 12]

Even if the Community had increased the VAT ceiling to 1.4% and had used all the extra money, the United Kingdom's adjusted net contribution in 1983 under the new fair sharing system (safety net) would have remained at 206 million ecu (£120 million) (or 533 million ecu (£310 million)).

The VAT share/expenditure share gap proposal, if applied to 1983

You will recall that, in the paper for President Mitterrand, we suggested some technical changes in order to make the basic VAT share/expenditure share gap scheme give a low UK limit.

If the VAT share/expenditure share gap scheme had applied, the United Kingdom's adjusted net contribution in 1983 would have been -

- (c) 292 million ecu [VAT share/expenditure share gap
- (£170 million) proposal, using threshold 1 in
- the paper for President Mitterrand]
- (d) 292 million ecu [VAT share/expenditure share gap
- (£170 million) proposal, using threshold 2 in
- the paper for President Mitterrand]
- (e) 396 million ecu [(c) using relative prosperity
- (£230 million) index of Community of 12]
- (f) 464 million ecu [(d) using relative prosperity
- (£270 million) index of Community of 12]

All the figures under the United Kingdom's own proposal and under the technically corrected VAT share/expenditure share scheme are substantially better than our actual adjusted net contribution in 1983.

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If the new system were to contain a "ticket modérateur" of 5%, the figures at (a) to (f) above would be 292 million ecu (£170 million), 602 million ecu (£350 million), 378 million ecu (£220 million), 378 million ecu (£220 million), 482 million ecu (£280 million) and 533 million ecu (£310 million). All these figures are better than the United Kingdom's actual net contribution in 1983. With a small "ticket modérateur" there would also be a small increase in our adjusted net contribution if the Community's total spending rose: the smaller the "ticket modérateur", the smaller will be this effect.

Cabinet Office

14 March 1984

RESTRICTED



Treasury Chambers, Parliament Street, SW1P 3AG

N.B.P.R.

R Bone Esq
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

A.S.C. 15/3

14 March 1984

R Bone
Manned

INTEREST ON NON-PAYMENT OF ADVANCE OF OWN RESOURCES IN 1983

On 6 January Mr Tugendhat wrote to Sir Geoffrey Howe about a claim for interest on an advance of own resources which the UK did not pay last May because of the election.

Copies of this letter and the draft reply which the Economic Secretary has agreed should be sent by our Permanent Representative are attached. The reply is consistent with advice from the Attorney General in May 1983 that there is no obligation to make an advance under the own resources regulation; and that we should make no concession until the Court rules otherwise.

The next stage in the proceedings is for the Commission to consider in the light of this response to its "letter of action" whether to deliver a reasoned opinion. It is only if we do not comply with that opinion that the Commission may bring the matter before the Court of Justice. You may nevertheless wish to draw the Foreign Secretary's attention to the reply which was drafted by the Treasury Solicitor after discussion with officials in EQO(L).

I am copying this letter to Mr Coles (NO.10), Mr Williamson (Cabinet Office), Mr Steel (Attorney General's Chambers), Mr Preston (Treasury Solicitor's) and Mrs Duncan (Lord Advocate).

Yours etc
A M Ellis

A M ELLIS
Private Secretary

DRAFT LETTER TO THE COMMISSION

1. I have the honour to refer to your letter of 6 January 1984 to the Secretary of State for Foreign and Commonwealth Affairs requesting payment of interest of £2,003,815.21 to which my authorities have given careful consideration and have instructed me to make the following observations.

2. Clearly, the essential question is as to the true interpretation of Article 10(2) of Council Regulation 2891/77. As to that it is immediately apparent that the text in all Community languages is precatory^(i.e. precatif) and not apt to create an obligation. (The difficulty which this creates for the Commission is reflected in the second paragraph of your letter: it is not possible on a natural use of the words to talk about the implementation of an invitation by the person to whom the invitation is addressed.) That Article 10(2) is precatory is confirmed in several ways.

3. First, the language in Article 10(2) provides a striking contrast to the language of Article 11(2) of Council Regulation 2/71. In the view of the United Kingdom, any doubt as to the proper interpretation of Article 10(2) is immediately dispelled on a comparison with the earlier legislation, since it is impossible to impute to the legislator who substitutes precatory words for mandatory words any intention other than to stop short of creating an obligation.

4. Secondly, an examination of the travaux préparatoires supports the view that Article 10(2) was not intended to be mandatory.

5. Thirdly, the language of Article 10(2) is in direct contrast to the wording of Articles 10(1), 10(3) and 12. The draftsman has clearly used a consistent and different formula where the intention is to impose an obligation. Had it been the intention to impose an obligation to respond to an invitation by the Commission under Article 10(2), it is quite clear how the provision would have been drafted. In this connection the United

Kingdom notes that the word "invites" is used in non-binding Community acts, as, for instance, in the Commission's proposed Recommendation on Emergency Health Cards and the Commission's proposed Resolution on local employment initiatives.

6. The United Kingdom does not overlook the point you make in the first sentence of the fourth paragraph of page 2 of your letter, that Regulation 2891/77 concludes with the usual formula drawn from the material provisions of the Treaties concerning the legal character of the Regulation. But those provisions, Article 189 EEC for example, do not mean that every provision of every regulation creates an obligation. Those general words cannot override the natural meaning of the words used in Article 10(2), which in the view of the United Kingdom serve to establish the circumstances in which the Commission may ask for an advance if it considers that circumstances have arisen in which it is necessary for it to do so.

7. As to the point made in your next paragraph, the juxtaposition of paragraphs 1 and 2 of Article 10 is in the United Kingdom's view immaterial to the question whether Article 11 is applicable to paragraph 2. As already stated the significantly different wording of paragraph 2 indicates that Article 11 applies only in respect of the time limit laid down in Article 10(1). This view is confirmed by the fact that, when a Member State accepts an invitation to make an advance under Article 10(2), the amount entered in the Commission's account is an estimate based on information available 5 days earlier, by contrast with the actual amount due under Article 10(1). Thus, in a subsequent month the United Kingdom estimates were about £4m. more than eventually became due, and yet the United Kingdom has no claim for interest on the overpayment. But another Member State may have paid sums substantially less than eventually became due and yet would not, it seems, be asked to pay interest on the underpayment. This demonstrates that the application of Article 11 to the non-payment of advances would be arbitrary and inequitable.

8. The Commission's observation that, on a more general level, its contentions reflect the development from a Community budget

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based almost entirely on expenditure to one in which increasing emphasis is being given to income is not understood. It has always been the case that, as Article 199 EEC makes clear, the revenue and expenditure shown in the budget must be in balance. Furthermore, the position on expenditure and revenue has not changed since the Treaty of 22 July 1975 and the full application of the own resources system from 1978. Article 10(2) of Regulation 2891/77 clearly took account of the nature of the Community budget and the developments since its predecessor regulation, Regulation 2/71.

9. In view of the above arguments, the United Kingdom finds inescapable the conclusion that by making the entry in respect of the resources established in April on 20 June 1983 the United Kingdom has fully discharged its obligations under the Regulation and the conditions for the application of Article 11 of that Regulation are not met.

10. In the absence of a legal obligation to make that advance, it will be apparent that the United Kingdom's constitutional difficulties are highly material. It would not have been proper for the United Kingdom government to make a voluntary payment without Parliamentary approval. The United Kingdom government would have been ready to recommend to Parliament approval of the requested advance. However, the dissolution of Parliament was announced on 9 May prior to a general election and there was insufficient time to implement the special parliamentary procedure. As evidence of its good will on the general issue of advances in 1983, the United Kingdom points out that it instituted the procedures considered appropriate in the circumstances immediately the new Parliament had assembled after the general election in order to comply with the Commission's request for advances due on 20 June and likewise complied with all subsequent requests from the Commission.

Brussels, 6. I. 1984

SG(83) D/ 124

Sir,

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

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

Article 11 of Regulation 2891/77 states that:

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

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

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

./.

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

LONDON SW1A 2AL

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

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

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

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

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

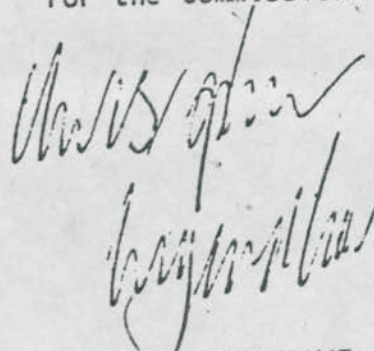
On a more general level, this position reflects the development from a Community budget based almost entirely on expenditure to one in which increasing emphasis is being given to income.

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

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

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

Yours faithfully,
For the Commission

A handwritten signature in cursive script, appearing to read 'Christopher Tugendhat', written over the typed name below.

Christopher TUGENDHAT

15 MAR 1984





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

PRIME MINISTER

COMMUNITY CASH POSITION 1984: 1983 REFUNDS

In my minute of 6 March I suggested how we might respond if the Commission were to call for an advance payment of own resources by 20 March. After representations by UKREP, they did not issue such a request. But they have now asked for an advance by not later than 30 March.

2. The timing, though less awkward, is still tricky. But I hold to my earlier view that we ought at this stage to play strictly by the rules, and be seen to put ourselves in a position to make the advance on 30 March. If we were seen not to do so, that could be disadvantageous at the European Council; the European Parliament could be more likely to delay our refunds; and the Commission might be unwilling (or conceivably unable) to pay them.

3. But we need not commit ourselves to make the advance before we know where we stand on the refunds. (And we could I think face difficulties in the House if we tried.)

4. I accordingly propose that the necessary Supplementary Estimate should be formally laid before the House on Friday, for the necessary scrutiny by the Treasury and Civil Service Committee, but that we should then make it clear to the Committee Chairman that we would not intend to put it to the Vote until the European Parliament had approved the transfer of our refunds.

5. If, as is likely, the Committee call for an Estimate Day debate, it and the Vote would then be scheduled for either 28 or 29 March, with the Consolidated Fund Bill being taken through to remaining stages on 29 or 30 March. This is on the assumptions that the European Council goes well, that our refund regulations and the

Content?

Yes

Do you wish to mention in

Cabinet? Yes A.S.C. 14/3.

This was discussed in Cabinet

today. A.S.C. 15/3 h.a.

PC NO
PC



budgetary transfers are approved by the Foreign Affairs Council on 20 March, and that the European Parliament does its stuff (in the period 26-28 March). If these assumptions are invalidated, it will still be open to us to decide to allow the Estimate to lapse.

6. If asked about the Estimate, our answer should I think be that the Commission request to all Member States is apparently necessary to ensure that they are in a position to pay our refunds by 31 March. (UKREP has been instructed to press Tugendhat for a definite assurance that the refund money will be available by 31 March and a full explanation of how they will arrange the flow of funds.) If asked what we would do if the refunds are blocked by the Parliament or Council, we should say that we will re-examine the position if and when that arises.

7. I understand that the Foreign Secretary agrees with my proposal. Copies of this minute go to him, and to the Lord President, the Lord Privy Seal, the Minister of Agriculture, the Chief Whip and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'N.L.' with a horizontal line underneath.

N.L.

14 March 1984

EURO Budget Pt 23



11 4 MAR 1987



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Ref. A084/828

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the negotiating situation for the European Council in the light of the Foreign Affairs Council on 12-13 March and the informal meeting of Foreign Ministers on 13 March. The negotiation is now likely to concentrate increasingly on the reformed financing system and, in particular, on the results which it must give for the United Kingdom. Other member states purport to find few difficulties on other issues and to see the European Council as facing "the British problem", whereas in fact they will be in serious difficulty themselves unless they obtain United Kingdom agreement to an increase in own resources. On the fair sharing of the budget burden the French Presidency noted that there was agreement that any settlement should last as long as a new own resources decision, that it should be linked with relative prosperity and that action should be on the revenue side. All other member states suggested that the system should be applied in such a way as to give a refund to the United Kingdom in the range 700-1,000 million ecu. The United Kingdom rejected this. In addition, we continue to take the view that the problem should be seen in terms of the adjusted net contribution, not in terms of a refund to the United Kingdom. On own resources most member states are in favour of a VAT ceiling higher than 1.4 per cent but below the Commission's proposed 2 per cent. The Germans were firm on 1.4 per cent as the maximum, if all other conditions were met. The Presidency suggested that no decision might be taken on the level of increase of own resources until June when it would be possible to see what had emerged on agriculture, enlargement and new policies. A new text on the control of agricultural and other spending will be circulated by the Presidency. It will be shorter and will combine elements of Commission and Dutch proposals. The Foreign and Commonwealth Secretary reiterated our conditions, in particular that the strict financial guideline for

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agricultural spending must be incorporated in a legally binding form in the budgetary procedures of the Community. We are withholding judgment until we see the revised Presidency text.

2. The Foreign Affairs Council reached agreement in principle on four energy issues - coking coal, the need for social measures based on the 60 million ecu available in the budget, on 265 million ecu of new credits for energy demonstration projects and on a text on solid fuel investment for discussion in the Energy Council. The Council was also near to agreement on the common commercial policy regulation on a basis acceptable to the United Kingdom. France and Italy, reviving a link with the post-Stuttgart negotiations, blocked the regulations on the United Kingdom's 1983 budget refunds, in spite of agreement on all outstanding points both by the European Parliament and other member states. It was agreed, however, that the Council would meet again on 20 March to adopt the regulations and consider Commission proposals for transferring the finance from the reserve chapter of the budget.

3. The Minister of Agriculture, Fisheries and Food will report that the Agriculture Council on 11-13 March reached provisional agreement on milk. This provides for quotas to be introduced for five years from 1984-85. Above the guaranteed quantity of 97.2 million tonnes, which will be reached after a transitional period in 1984-85, a superlevy will be charged at the punitive level of 75 per cent of the milk target price (100 per cent in the case of a collective quota). The additional cost of phasing will be met by a 1 per cent increase in the basic milk levy for one year. Although the overall figure will be divided among member states on the basis of 1981 deliveries plus 1 per cent, the quota allocation within individual member states will, as we wanted, be on the basis of 1983 figures. Member states will have the option of operating the system at dairy or, as we intend, at farm level. A small margin of flexibility has been built in by means of a reserve of 600,000 tonnes, but there are no special exemptions. The agreement is subject to a general reserve pending settlement of the wider package and to specific reserves by the United

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Kingdom and the Netherlands on the 600,000 tonnes set-aside and by Ireland on her wish for an exemption. The proposed levy on intensive milk production has been rejected. The butter subsidy will be at a reduced level but, taken with the other alterations in intervention prices, it will mean no increase in United Kingdom butter prices at retail level.

4. The Agriculture Council also agreed a draft text on monetary compensatory amounts (mcas). This would include an immediate elimination of three percentage points from all mcas, a five percentage point reduction in German mcas from 1 January 1985 to be financed primarily by Germany increasing their VAT reimbursement to farmers, and the elimination of remaining positive mcas by 1987-88. Any change in the United Kingdom's green rate would be dealt with in future annual price-fixing proposals. The text is subject to a general reserve pending an acceptable reform of agricultural policy and its financing. The United Kingdom entered additional reserves. The Minister of Agriculture, Fisheries and Food secured, as OD(E) agreed, that there should be no immediate change in the green pound. The Agriculture Council will meet again before the European Council.

5. There was also an Internal Market Council on 8 March at which the Parliamentary Under Secretary, Department of Trade and Industry (Mr Fletcher), represented the United Kingdom, and a Finance Council on 12 March, when the United Kingdom was represented by officials, but neither took decisions requiring a report to Cabinet.

6. You and colleagues will be attending the European Council on 19-20 March. The Agriculture Council is meeting on 16-17 March in an effort to complete the major outstanding elements in the agricultural package and the Foreign Affairs Council on 20 March to adopt our 1983 refund regulations. There is a Transport Council on 22 March.

RA

ROBERT ARMSTRONG

14 March 1984

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Mr. Butler

To see.

Ref. A084/824

MR COLES

A.S.C. 13/3.

10/13/3 f.a.

EC Budget and Refunds

During the morning Sir Michael Butler telephoned from Brussels, to say that the technical points on the British refunds had been disposed of, and the Italians and Greeks had removed their insistence on linkage to a budget settlement. Only the French were insisting on the linkage. Monsieur Cheysson and Monsieur Dumas had made it clear to the Foreign and Commonwealth Secretary that their instructions gave them no leeway on this, and suggested that the Prime Minister should speak to the President of the French Republic.

2. The Prime Minister decided not to speak to the President herself, but on her instructions I spoke to Monsieur Attali at about 12.15 pm. I said that I understood from Brussels that the situation was that the only obstacle to agreement upon the regulations today was the French insistence on linkage with the budget settlement. The Prime Minister had asked me to speak to Monsieur Attali, to urge the President as a matter of urgency to authorise his representatives in Brussels to waive this insistence on the linkage with the budget settlement. If it was maintained, the situation would be seen as an Anglo-French dispute, which both the Prime Minister and the President were anxious to avoid, and that would make it more difficult for the Prime Minister to negotiate meaningfully and constructively on the outstanding points at the European Council in Brussels next week.

3. Monsieur Attali took the point, but said that this would be a matter of great political difficulty in France, since it would appear to remove one of the President's bargaining points. I said that my understanding was that, even if the Council agreed the regulations today, that was not the final stage, since there had to be a Commission proposal on the refunds and then agreement between the Council and the Commission. There would thus be further opportunities, later in the procedure, for the French



Government to block the refunds, if as a result of Brussels they felt obliged to do so. This appeared to be news to Monsieur Attali. He said that there was no question of the French attacking the refunds if there was a satisfactory settlement of the refunds at the European Council. The President was not in Paris, but he would speak to him straightaway. I emphasised the urgency of getting instructions to the French representatives at the Council of Ministers.

4. I am sending copies of this minute to Mr Fall and Mr Kerr.

RA

ROBERT ARMSTRONG

13 March 1984

CONQUEROR

PRIME MINISTER

cc: Sir R. Armstrong

EEC BUDGET AND REFUNDS

Sir Michael Butler has just telephoned from Brussels. The technical points on our refunds have been disposed of, as has the need for conciliation with the Parliament. The Italians and Greeks have removed their insistence on linkage to a Budget settlement. Only the French are holding out.

Cheysson and Dumas have told the Foreign Secretary that their instructions are absolutely firm, and the Foreign Secretary and Sir Michael Butler believe this. Cheysson and Dumas wondered whether you could telephone Mitterrand. The Foreign Secretary and Sir Michael Butler do not think that you would wish to do this, and would not recommend it. (any way, you haven't time this morning).

But the Foreign Secretary and Sir Michael Butler have suggested that you might authorise Sir Robert Armstrong or me to ring Attali and make the following points:-

- (i) The French insistence on linkage is the only obstacle to making progress on the refunds.
- (ii) French insistence on this point will make it more difficult for you to reach agreements in Brussels next week since the British press will say that you are being put under duress.
- (iii) If the French allow the Council to make the regulations today, that is not the final stage. There has to be a Commission proposal on the refunds, and then agreement between the Council and the Commission. So there would be a further

/chance

chance for *discussion*.

- (iv) In the light of this, you greatly hope that instructions can be given to the French representatives to enable them to come into line with the rest of the Ten on this matter, and withdraw their insistence on linkage *in Brussels*

Do you agree that Sir Robert Armstrong or I should ring Attali with this message. It will have to be done within the next few minutes.

F.R.B.

13 March 1984



10 DOWNING STREET

From the Private Secretary

12 March 1984

PREPARATION FOR THE EUROPEAN COUNCIL: 19-20 MARCH

The Prime Minister had a meeting yesterday with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, and, for the first part of the meeting, the Chief Whip and the Lord Privy Seal in order to discuss the United Kingdom's negotiating position for the European Council on 19-20 March. Sir Robert Armstrong, Sir Michael Franklin, Sir Michael Butler, Mr. Unwin, Mr. Hannay, Mr. Williamson and, for the first part of the meeting, Mr. Maclean, were also present.

The Prime Minister asked for the latest report on the possible request from the Commission, in the light of its cash shortage, for an advance payment from member states. The Chancellor of the Exchequer said that it was now unlikely that there would be an immediate request for the payment of an advance on 20 March. If the Commission were to make a request for an advance to be made on 30 March or later, it would be possible for the United Kingdom to reserve its final decision until after the European Council and the plenary session of the European Parliament which would deal with the United Kingdom's 1983 refunds. The Prime Minister said that if, as now expected, there would not be a request for an immediate advance to be made on 20 March, then there was no need to decide the United Kingdom's reaction immediately. It would be good discipline if the Community were short of cash.

On the fair sharing of the Community budget burden, the Prime Minister said that President Mitterrand had admitted that the logic was on the British side but had claimed that no other member state would be prepared to agree to an adjusted United Kingdom net contribution as low as we were proposing. It was important to avoid a situation in which other member states would pocket any concessions which the United Kingdom might be prepared to make. In particular, we should not move from the safety net proposal related to the whole net contribution, although we might discuss the VAT share/expenditure share gap. It would equally be wrong to make any concession now on the "ticket modérateur". The Foreign and Commonwealth Secretary

/said that

said that substantial progress had been made in getting greater agreement within the Community on the need for a revised system of financing. The French were likely now to accept most of the elements which we needed in the system (paragraphs 5 and 16(i) in the Cabinet Office paper of 5 March). The French ideas on the figures were not acceptable and we were seeking to show them the changes which were necessary to meet our objectives. The revised version of the paper for President Mitterrand made clear that our solution related to the whole net contribution; that other member states were suggesting a solution related to the VAT share/expenditure share gap; and that the VAT share/expenditure share gap solution could not give the figures we needed unless the limit were set very low. The Chancellor of the Exchequer said that the revised paper for President Mitterrand did make clear that we were not arguing in favour of the VAT share/expenditure share gap scheme, even with a low limit. It also made clear the risks associated with this scheme because the customs duties and levies element could vary up as well as down. In a further discussion specific changes to the text in the draft paper for President Mitterrand were put forward, with a view to making clear that the United Kingdom was commenting upon, but not advocating, the VAT share/expenditure share gap solution. The text has been revised in the light of the discussion (see my letter of 9 March).

On control of agriculture and other spending, Sir Michael Butler reported the latest position. He recalled that the United Kingdom's prime objective was to obtain a strict financial guideline for agricultural spending, which must be incorporated in the budgetary procedures of the Community. We would certainly not get agreement to a Treaty amendment covering all expenditure at the next European Council. We must have agreement on the substance which did not preclude a Treaty amendment. It would then be possible to sort the question out in the preparation of the appropriate texts by the following European Council. In discussion it was pointed out that our first objective was the binding guideline on agricultural spending but that the earlier discussions had shown that our best chance of obtaining this might be within an agreement on budget discipline covering all Community expenditure. The Prime Minister, summing up the discussion, said that we must reiterate our stated objective on a strict financial guideline for agricultural expenditure to be incorporated in the Community's budgetary procedures, which should be binding on all three institutions of the Community.

On the VAT ceiling, the Prime Minister accepted the recommendation in the Cabinet Office paper that we should discuss neither the principle nor the size of an increase in own resources until the remaining elements in the package (in particular, the strict financial guideline and the figures on the fair sharing of the budget) had been subject to satisfactory offers by other member states. It was important not to concede the principle of an increase in own resources at this stage.

/ On agriculture,

On agriculture, the Foreign and Commonwealth Secretary reported the results of the meeting of the Sub-Committee on European Affairs of the Defence and Overseas Policy Committee. On monetary compensatory amounts our objective should be to ensure that the question was not settled on the basis of the revised German proposal in the Agriculture Council, since we needed to impose important conditions and to sell dearly any agreement to it. These conditions related to the phasing out of negative monetary compensatory amounts. They included a time limit on the system and no automatic application to countries with variable monetary compensatory amounts such as the United Kingdom. On milk, we should continue to seek application straightaway of the superlevy to production above 97.2 million tonnes, application of the superlevy at the farm level and no exceptions. It was recognised, however, that there were certain practical arguments in favour of phasing down to 97.2 million tonnes over two years. There would be further examination of possible action outside the milk sector to deal with the Irish problem. On the butter subsidy, we should aim for no reduction and our fallback position would be that we could accept a reduction provided that there were no increase in United Kingdom butter prices. We would continue to press for retaining the beef variable premium scheme but had not taken a view about the position if this did not prove negotiable. The Prime Minister said that it might be necessary again to look at the agricultural questions when it was clearer which points might be coming to the European Council.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Chief Whip, the Lord Privy Seal and Sir Robert Armstrong.

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

CG 110
CC/B1

②



Prime Minister

A.J.C. 13/3.

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

9 March 1984

A J Coles Esq
10 Downing Street

Dear John,

COMMUNITY CASH POSITION

At her meeting yesterday the Prime Minister asked about the balance on the Commission's account with the Paymaster General, (EEC No.1).

At close of play last night (8 March) the balance was just under £53 million. This is reasonable in view of the Commission's current cash position and does not, to our knowledge, reflect any unusual payments. We have received instructions to pay about £3 million out today. Our next scheduled payments into the account are on 20 March, when about £120 million of non-VAT Own Resources in respect of January will be paid; and on 1 April when about £141 million for VAT Own Resources is due. The additional (advance) payment the Commission may now request during March (about £100 million or a bit more) would represent non-VAT Own Resources in respect of February, which would not normally be due for payment until 20 April.

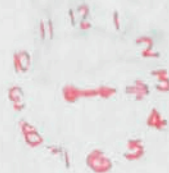
We are monitoring the account closely, but in advance of decisions about expenditure during March, particularly the phasing of agricultural advances, we cannot at this stage assess at all accurately the likely balance in the account at the end of the month. Commission officials have however given UKREP a preliminary assurance that they will be able to find the necessary cash to pay our refunds before the end of March, once the Parliament has approved the necessary budget transfers. But we will clearly need to keep the pressure on the Commission to fulfil this assurance after the European Council.

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

Yours sincerely,
Judith Simpson

MISS J C SIMPSON
Private Secretary

11 2 1119 1984



CONCORDIA

UNIVERSITY OF MONTREAL



CONFIDENTIAL



FILE

cc. D.C.

R07

10 DOWNING STREET

From the Private Secretary

9 March, 1984

FUTURE FINANCING OF THE COMMUNITY

Would you please refer to David Williamson's minute of 8 March with which he forwarded a revised draft letter and paper for the Prime Minister to send to President Mitterrand.

The Prime Minister has approved the paper as drafted and has signed the letter to the President. I enclose the signed version with this letter and would be grateful if you would arrange for its immediate despatch, together with the paper, to the Elysee.

We agreed that you would telegraph the texts in advance.

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

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

SUBJECT



10 DOWNING STREET

THE PRIME MINISTER

9 March 1984

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T38184

Dear Mr. President,

When we met on Monday, I promised to let you have a paper about the problem of the imbalance in the Community Budget. The paper would be designed to describe a lasting and systematic solution to this problem and explain how a net transfer of resources of 400-500 million ecu by the United Kingdom in a 12 Member Community could be achieved on a sustainable basis.

I now enclose this paper and hope it will be of use to you as you prepare the March meeting of the European Council.

I much valued the opportunity we had at Chequers to discuss the whole range of European Community problems that confront us. Like you, I hope that we shall be able to make decisive progress at our meeting later this month. I am sure that it will be important for Geoffrey Howe and Roland Dumas to keep in close touch over the next two weeks.

Yours sincerely
Margaret Thatcher

His Excellency Monsieur Francois Mitterrand

FUTURE FINANCING OF THE COMMUNITY

The EC Treaty established in Article 200 a first system for financing the Community which was replaced in 1970 by the Own Resources Decision. That Decision was based on two main principles

- the Community's Own Resources were to consist of the customs duties, agricultural levies and a proportion of VAT revenue on a standard basis
- there was to be an upper limit on Own Resources, in the form of the 1% VAT ceiling.

2. Before the United Kingdom joined the Community, a solemn assurance was given to us that "should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the institutions find equitable solutions". Events have shown that the Own Resources Decision does produce an unacceptable situation for the United Kingdom. It is ill-adapted to a Community of 10 and will be even more unsatisfactory for a Community of 12. It will increasingly jeopardise the Community's development unless it is corrected. The Community is now at a critical stage in its history, at which it will either demonstrate the capacity to adapt its priorities and enlarge its objectives, including its ability to meet the social, industrial and technological challenges it faces or it will cling on to old decisions.

3. In recent years ad hoc solutions to the budget problem have been found. The Stuttgart Declaration set the objective of avoiding "the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing" and to this end "ensuring equitable financial situations for all Member States". The underlying problem remains. In the period 1980-82 the United Kingdom whose gross domestic product per head was only 95% of the Community average

/during

during this period would have contributed about 50% of the resources transferred to other member states through the Community budget if there had not been corrective adjustments on an ad hoc basis. The United Kingdom's net budgetary burden, without taking account of ad hoc refunds negotiated from 1980, rose as follows -

million ecu				
<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
228	849	1512	1419	2036

If the Own Resources ceiling were raised and no corrective system were in place, this burden would rise substantially.

4. The United Kingdom has made clear that it is only prepared to consider an increase in the VAT ceiling if there is effective control of agricultural and other spending ("budget discipline") and if the financing system is put on to an equitable basis ("budget imbalance").

5. There is now an emerging consensus that a reformed system must -

(i) be lasting and be included in a revised Own Resources Decision;

(ii) involve a correction on the revenue side by reducing a member state's VAT contribution in the following year;

(iii) be based on a member state's relative prosperity, limits being expressed as a percentage of a member state's gross domestic product;

(iv) come into effect in 1985, so that it can operate in respect of 1984 and subsequent years.

6. The reformed system should be so designed as to leave the United Kingdom at the outset with a net transfer of resources through the Community budget to other member states in a 12 member Community of 400-500 million ecu per year.

7. The United Kingdom has proposed a system based on measuring the actual net transfers of resources through the Community budget. This is the best way of dealing with the problem. In the illustrative example put forward by the United Kingdom a member state whose relative prosperity was at or below 90% of the Community average would not make any net contribution. Above this level, there would be a limit expressed as a percentage of a member state's gross domestic product. It would rise by 0.007% of the member state's gross domestic product for each percentage point increase in its relative prosperity. The member state would receive relief for the excess of its net contribution above its limit. No member state would be expected to contribute to its own relief or to the relief of another member state if by so doing it would increase its net contribution above its limit. Applying this system to the 1982 figures and using a relative prosperity index for a Community of 12, the United Kingdom's adjusted net contribution would be 437 million ecu.

8. A number of other delegations have supported a system based on the VAT share/expenditure share gap. This formula treats the customs duties and levies as though they were VAT. For some member states, including France and Germany, this would be an advantage, because it overstates their contribution. But for the United Kingdom it would produce a measured gap which would have been 350 million ecu a year lower than the actual transfer of resources through the budget. In order to keep the United Kingdom's transfer of resources through the Community budget after adjustment within 400-500 million ecu, the limit would have to be very low. This result could be achieved by technical adjustments in the system. If, for example, it were decided that a member state whose gross domestic product per head was below the Community average made no net contribution and the limit rose by 0.01% of the member state's

gross domestic product for each percentage point increase in its relative prosperity, the United Kingdom's actual net contribution after adjustment would have been about 400 million ecu (1982 figures, using a relative prosperity index for a Community of 12). Alternatively, a member state whose gross domestic product per head was at or below 97½% of the Community average could make no net contribution, with the limit rising by 0.008% of the member state's gross domestic product for each percentage point increase in its relative prosperity. This would have given on the same assumptions a United Kingdom actual net contribution after adjustment of about 460 million ecu.

9. Each of the systems described above is based on a single method of correcting the budget imbalance. However, if this result were achieved by the VAT share/expenditure share gap, it would not provide the necessary assurance against the risk of arbitrary fluctuations in the size of the gap. One way of providing this protection would be by allowing any member state benefitting from the system described in paragraph 8 and whose share of levies and duties was larger than its VAT share to have a correction to the latter gap as well.

10. The United Kingdom accepts that, if its relative prosperity were to improve, its net contribution to the Community budget would rise.

Nansaukhalter



OIU
AJS ✓ A.F.C. 2/3. *cc HSO*
to note
AF 913 h.a.

FCS/84/76

MINISTER OF STATE FOR ENERGY

Refund Regulations: Energy Items

1. Thank you for your ^{attached} letter of today's date. I am most grateful for the position you have taken. I also entirely agree with you that we should do all we can to secure agreement on coal social measures.

2. I have looked carefully at your suggestion that we should not lift our reserve on coking coal until the Foreign Affairs Council, and I have consulted our Permanent Representative in Brussels. There is, however, no energy item on the Foreign Affairs Council agenda, and I could therefore only raise coal social measures under Any Other Business, which would clearly be quite unsatisfactory from our point of view.

3. The one forum where it will be open to us to raise coal social measures will be in the Energy Working Group when it meets tomorrow, 9 March. In the light of your letter, I have instructed our representative on the Working Group to raise coal social measures, and to press very hard for agreement to this part of the energy package and for suitable assurances that work on the rest of the solid fuels package will proceed. Only if it is clear that this approach cannot succeed, and that to persist in it would jeopardise our refunds, will we lift our reserve on coking coal.

4. I am



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

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
8 March 1984

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AJC
To note

NAM cc AJD
AT 8/13



Copied to:
Prime Minister
Chancellor of the Exchequer
Secretary of State for Trade
& Industry
Sir Robert Armstrong

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ
Direct Line 01-2113290
Switchboard 01-211 3000

THE MINISTER OF STATE

The Rt Hon Sir Geoffrey Howe QC MP
Foreign Secretary
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

*This reflects the
discussion in Cabinet today
A.J.C. 8/13
8 March 1984*

Dear Geoffrey,

COKING COAL

Following the discussion on this at Cabinet this morning, I am writing to confirm my understanding of the terms on which I have reluctantly agreed that we should drop our opposition to an extension of the coking coal scheme within the Community, except as part of an overall energy package.

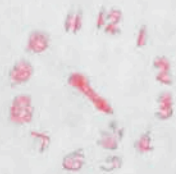
Both Ian Stewart and Malcolm Rifkind have stressed in their letters to me of 7 and 8 March respectively that there is no alternative to our making this concession, because the linkage to payment of our 1983 Budget refunds by 31 March 1984 made by the Germans. However, you should be under no illusion that by making this concession now, our negotiating position on the solid fuels initiative is seriously undermined. By keeping the elements of an energy package together - as we have done for the last six months - there was a fair chance that we should have secured an acceptable outcome. We agreed at Cabinet this morning that we should do our utmost to salvage something out of the solid fuels package in return for making the concession on coking coal. The key item for us is the transfer of 60 mecu to facilitate more Community support for coal social measures. We should also get an assurance that work on the other elements of the solid fuels initiative that are of interest to us, will proceed. The chances of securing something worthwhile from this are now very low. But if we do not obtain a quid pro quo now, the prospects of our ever doing so are remote. I disagree strongly with Malcolm Rifkind's point that we shall be in a stronger position to press our case on the other energy items at a future Council, once the coking coal card can no longer be played.

Ultimately, it is for you to decide on the best tactics to secure the outcome we want. I understand that officials are meeting in Brussels tomorrow to discuss the energy items. In my view it will be difficult for officials alone to secure the outcome which we seek. There is much to be said from ensuring that there is full recognition at the political level of the flexibility we have shown in making the concession on coking coal and a willingness to match this. This points clearly to delaying the concession to the Foreign Affairs Council itself. But if this raises insuperable tactical difficulties, it is important that we should find the best alternative means of paving the way for agreement of coal social measures.

*Yours ever,
Alick*

ALICK BUCHANAN-SMITH

111
MAR 1984



Qz.03625

MR COLES

Now see my letter to F.C.O. M₂/3.

FUTURE FINANCING OF THE COMMUNITY


--- I attach a revised draft letter and paper for the Prime Minister to send to President Mitterrand, on the lines discussed at the Prime Minister's meeting this evening.

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

D F Williamson

D F WILLIAMSON

8 March 1984



Draft letter from the Prime Minister to
President Mitterrand

When we met on Monday, I promised to let you have a paper about the problem of the imbalance in the Community Budget. The paper would be designed to describe a lasting and systematic solution to this problem and explain how a net transfer of resources of 400-500 million ecu by the United Kingdom in a 12 Member Community could be achieved on a sustainable basis.

I now enclose this paper and hope it will be of use to you as you prepare the March meeting of the European Council.

I much valued the opportunity we had at Chequers to discuss the whole range of European Community problems that confront us. Like you, I hope that we shall be able to make decisive progress at your meeting later this month. I am sure that it will be important for Geoffrey Howe and Roland Dumas to keep in close touch over the next two weeks.

Draft letter from the Prime Minister to
President Mitterrand

When we met on Monday, I promised to let you have a paper which set out briefly and succinctly the case for the Community agreeing on a lasting and systematic basis a corrective arrangement to deal with the problem of the imbalance in the Community budget and which would also explain how the figure of 400-500 million ecu which I mentioned at Athens as a reasonable net transfer of resources through the Community budget for the United Kingdom to make in a twelve member Community could be achieved on a sustainable basis under such a corrective system. I enclose this paper. I hope that it will be of use to you as you prepare the March meeting of the European Council.

I much valued the opportunity we had at Chequers to discuss the whole range of European Community problems that confront us. Like you, I hope that we shall be able to make decisive progress at our meeting later this month. I am sure that it will be important for Geoffrey Howe and Roland Dumas to keep in close touch over the next two weeks.

FUTURE FINANCING OF THE COMMUNITY

The EC Treaty established in Article 200 a first system for financing the Community which was replaced in 1970 by the Own Resources Decision. That Decision was based on two main principles

- the Community's Own Resources were to consist of the customs duties, agricultural levies and a proportion of VAT revenue on a standard basis
- there was to be an upper limit on Own Resources, in the form of the 1% VAT ceiling.

2. In the view of the United Kingdom events have shown that the Own Resources Decision, which served the Community adequately in the early 1970s, is ill-adapted to a Community of 10 and will be even more unsatisfactory for a Community of 12. It will increasingly jeopardise the Community's development unless it is corrected. The Community is now at a critical stage in its history, at which it will either demonstrate the capacity to adapt its priorities and enlarge its objectives, including its ability to meet the social, industrial and technological challenges it faces or it will cling on to old decisions.

3. There is now pressure to change the Own Resources Decision in two important respects -

(i) the common purpose in the further development of the Community can only be sustained if there is also a common acceptance that the financing of the Community is justifiable and fair. In fact, the operation of the Own Resources Decision and the pattern of Community budget expenditure have turned out to be quite different from what was expected ten or more years ago. When the Own Resources system was discussed with the United Kingdom in the accession negotiations it was argued by the original six member states that the development of non-agricultural

/policies

policies would correct the budgetary disadvantage for the United Kingdom resulting mainly from the large proportion of the Community budget spent on agriculture. It was on this basis that the United Kingdom was given in these negotiations the assurance that "should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the institutions find equitable solutions".

The Community has acknowledged this in recent years, and ad hoc solutions have been found. Nonetheless, the underlying problem remains. In the period 1980-82 the United Kingdom whose gross domestic product per head was only 95% of the Community average during this period would have contributed about 50% of the resources transferred to other member states through the Community budget if there had not been corrective adjustments on an ad hoc basis. The United Kingdom's net budgetary burden, without taking account of ad hoc refunds negotiated from 1980, rose as follows -

million ecu				
<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
228	849	1512	1419	2036

If the Own Resources ceiling were raised and no corrective system were in place, this burden would rise substantially;

(ii) there is a strong demand within the Community to increase the present 1% VAT ceiling. The operation of this ceiling, if it remains unchanged, will present the Community with a serious political dilemma: either obligatory expenditure will have to be severely

/constrained

constrained or finance will have to be increasingly diverted from other existing policies to meet the Community's agricultural obligations. There will be no available resources for the development of desirable Community policies such as the ESPRIT programme.

4. The United Kingdom has made clear that it is prepared to consider an increase in the VAT ceiling, provided that there is effective control of agricultural and other spending ("budget discipline") and that there is a correction of the present inequitable financing system ("budget imbalance").

5. There seems to be an emerging consensus that a ^{reformed} ~~corrected~~ system must -

(i) be lasting and be included in a revised Own Resources Decision;

(ii) involve a correction on the revenue side by reducing a member state's VAT contribution in the following year;

(iii) be based on a member state's relative prosperity, limits being expressed as a percentage of a member state's gross domestic product;

(iv) come into effect in 1985, so that it can ^{provide} ~~provide correction~~ in respect of 1984 and subsequent years.

6. The United Kingdom considers that ^{the reformed} ~~any corrective~~ system should be so designed as to leave the United Kingdom at the outset with a net transfer of resources through the Community budget to other member states in a 12 member Community of 400-500 million ecu per year.

7. The United Kingdom has proposed a system based on measuring the ~~total~~^{actual} net transfers of resources through the Community budget and believes this is the best way of dealing with the problem. (~~Under this proposal a member state's full net transfer of resources through the Community's allocated budget would be taken into account in setting a threshold limit on that contribution.~~) In the illustrative example put forward by the United Kingdom a member state whose relative prosperity was at or below 90% of the Community average would not make any net contribution. Above this level, the threshold, expressed as a percentage of a member state's gross domestic product, would rise by 0.007% of the member state's gross domestic product for each percentage^{point} increase in its relative prosperity. The member state would receive relief for the excess of its net contribution above its threshold. No member state would be expected to contribute to its own relief or to the relief of another member state if by so doing it would increase its net contribution above its threshold. Applying this system to the 1982 figures and using a relative prosperity index for a Community of 12, the United Kingdom's adjusted net contribution would be 437 million ecu.

8. A number of other delegations have supported a system based on the VAT share/expenditure share gap. This formula treats the tariffs and levies as though they were VAT. For some member states, therefore, it would take into account only a part of the net transfer of resources through the Community budget, leaving aside any difference between the member state's VAT share and its share of own resources. In the case of the United Kingdom on average in 1979-82 this would produce a measured gap which would be 350 million ecu a year lower than the actual transfer of resources through the budget. For the United Kingdom's transfer of resources through the Community budget after adjustment to be within 400-500 million ecu, the remaining margin of manoeuvre in setting the threshold under the new system would need to be narrow.

/The

The result referred to above could, however, be achieved at the outset by technical adjustments of the threshold in the system. If, for example, it were decided that a member state whose gross domestic product per head was below the Community average made no net contribution and the threshold rose by 0.01% of the member state's gross domestic product for each percentage point increase in its relative prosperity, the United Kingdom's actual net contribution after adjustment would have been about 400 million ecu on 1982 figures, using a relative prosperity index for a Community of 12. Alternatively, a member state whose gross domestic product per head was at or below 97½% of the Community average could make no net contribution, with the threshold rising by 0.008% of the member state's gross domestic product for each percentage point increase in its relative prosperity. This would have given on the same assumptions a United Kingdom actual net contribution after adjustment of about 460 million ecu.

The choice between the threshold arrangements could be made, taking account of the position of the other major contributor.

9. Each of the systems described above is based on a single method of correcting the budget imbalance. However, since in the system in paragraph 8 this result would have been achieved by the use of the VAT share/expenditure share gap, it would not provide the full assurance the United Kingdom considers necessary against the risks of ~~this system~~. One way of providing this protection would be by allowing any member state benefitting from the system described in paragraph 8 above and whose share of levies and duties was larger than its VAT share to have a correction to the latter gap as well.

10. ~~Whichever solution is adopted,~~ ^The United Kingdom accepts that, if its relative prosperity improves, its net contribution to the Community budget would rise.

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PRIME MINISTER

Meeting on EC issues

There are three matters to discuss:

(a) A possible Commission request that we should make an advance payment of £100 million on 20 March.

Please see the Chancellor's letter attached. This is very awkward. I suggest that you take this item first - and if you agree I shall ask the Chief Whip and the Leader of the House to attend for this item only (they both want to). Agree?

(b) The package of issues for the European Council.

Please see Mr. Williamson's brief attached.

(c) Possible letter to President Mitterrand.

We discussed today. I have revised the letter and slightly revised the paper. In the light of the meeting's discussion of the VAT share/expenditure share gap formula you will wish to decide whether to send this letter to President Mitterrand. If you are going to do so, we should send it immediately after the meeting.

A.S.C.

7 March 1984

{ 100% compensation.
Moderating expenditure }

Safety net.

✓ NO
PC



Secretary of State for Foreign and
Commonwealth Affairs

N.B. P. R.

100 $\frac{8}{3}$

1982 RISK-SHARING REFUNDS

I have seen your minute of 5 March to the Prime Minister and the Attorney General's minute of 6 March.

h.a.

I also agree with the line taken in your draft letter to the President of the Council of Ministers.

Copied to the Prime Minister and to the other recipients of your minute.

MACKAY OF CLASHFERN

Lord Advocate's Department
Westminster

7 March 1984

euro budget Pt 23

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Ref. A084/748

PRIME MINISTER

Cabinet: Community Affairs

You may wish to inform the Cabinet of significant points arising from your discussions with Mr Lubbers on 2 March and President Mitterrand on 5 March.

2. The Foreign and Commonwealth Secretary may wish to give a brief assessment of the negotiating situation for the European Council, which is now only a fortnight away. He has had discussions this week with the French Minister responsible for European affairs, Monsieur Dumas, and with the Danish Foreign Minister, Mr Elleman-Jensen. He will also refer to the 1983 refunds and, in particular, to a coking coal scheme. This scheme is of little direct importance to us but the Germans need it so that they can get their element of the 1983 refunds. So far the coking coal scheme has formed part of a package of four measures (the others being coal social measures, demonstration projects and solid fuels) under discussion in the Energy Council. The Secretary of State for Energy, who will be represented by the Minister of State (Mr Buchanan-Smith), would like to keep the package together. The Foreign and Commonwealth Secretary, however, is concerned that by blocking agreement on coking coal we would endanger the approval of our own 1983 refund regulations. The Chancellor of the Exchequer is likely to support the Foreign and Commonwealth Secretary, since the only United Kingdom financial contribution under the coking coal scheme is 800,000 ecu a year from the British Steel Corporation, compared to some £437 million due to us under the refund regulations. Officials met earlier this week and agreed that, against this background, Ministers should be recommended to accept the coking coal scheme in the last resort and to use our agreement to this as a lever for agreement to the other elements in the energy package. If so, we would follow this line in COREPER on 9 March.

3. The Chancellor of the Exchequer will wish to report that the Commission has given a warning that it may not have enough money



to meet its commitments in March and April and that it may again invite member states to advance the monthly transfer of own resources. The Commission might be able to struggle through. If not, there would be a request for about an additional £100 million from the United Kingdom on 20 March. There are two reasons: first, the Commission has to find the money for the United Kingdom's 1983 refunds and, secondly, agricultural expenditure is running at even higher levels than in the budget. The obvious disarray in Community finances should help our negotiating objectives at the European Council. The timing, however, of a specific request by the Commission would be bad. A Bill would be required. The line which the Chancellor is likely to take is that, if a request is received, a supplementary estimate would be presented but no final decision would be taken until after the European Council. Thus our options would be kept open. The Commission's request would, in any event, be at unjustifiably short notice. After the European Council we would have a choice between withholding and making the advance late.

4. The Minister of Agriculture, Fisheries and Food may report on the Agriculture Council on 5-6 March which had its first substantive negotiation on the 1984 price proposals. The negotiation was difficult and unproductive but does show that the member states are at last facing the real problems resulting from runaway expenditure in the agricultural sector and the budget ceiling.

5. The Secretary of State for the Environment may report on the Environment Council on 1 March at which the United Kingdom was represented by the Parliamentary Under-Secretary (Mr Waldegrave). This agreed a useful framework Directive on the control of air pollution from industrial plants and a Regulation providing for Community funding for clean technologies and environmentally sensitive areas. At the United Kingdom's suggestion all food industries were excluded from the scope of the Directive and three years were allowed for its implementation. On the Regulation the United Kingdom succeeded in more than halving its cost to 13 million ecu from the 27.5 million ecu originally proposed by the Commission.

Mr Pollard



6. There was a Consumer Affairs Council on 2 March at which the United Kingdom was represented by the Parliamentary Under-Secretary, Department of Trade and Industry (Mr Fletcher). No decisions were reached requiring a report to Cabinet, but the United Kingdom made a firm statement on the need for future Commission proposals to be limited to problems with a genuine Community-wide dimension.

7. There is an Internal Market Council and an informal Ministerial meeting on Women's Affairs on 8 March, Finance and Foreign Affairs Councils on 12 March, an informal Foreign Ministers meeting on 13 March, and an Agriculture Council on 12-13 March. The Foreign Affairs and Agriculture Councils represent the final formal preparation for the European Council on 19-20 March.

RA

ROBERT ARMSTRONG

7 March 1984

Budget

CONFIDENTIAL

Howe



10 DOWNING STREET

From the Private Secretary

7 March 1984

1982 Risk-Sharing Refunds

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 5 March and the draft of the letter which Sir Geoffrey Howe proposes to send to M. Cheysson as President of the Council.

The Prime Minister is content with the text of the letter.

I am copying this letter to the Private Secretaries to the Lord Chancellor, the Chancellor of the Exchequer, the Attorney General, the Lord Advocate and to Richard Hatfield (Cabinet Office).

A. J. COLES

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

CONFIDENTIAL



Very awkward. I suggest we discuss at the beginning of your meeting on the European Council tomorrow - with the Chief Whip and Leader of the House present.

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

PRIME MINISTER

Agree?

A- J.C. 7/3.

COMMUNITY CASH POSITION 1984: 1983 REFUNDS

In my minute of 28 February to the Foreign Secretary I warned that the Commission, faced by serious cash flow difficulties, might not be able to meet obligations falling due during March without recourse to an advance of own resources, use of overdraft facilities, or postponement of some CAP payments.

2. The situation has deteriorated further. I understand that Sir Michael Butler is still pressing the Commission to delay any request until after the European Council, and there is still a possibility that he will succeed. But the more probable outcome is that the Commission will make an early request that member states advance their next payment of own resources by one month from 20 April to 20 March. As you will recall, such advance payments, not being obligatory under the European Communities Act, cannot be met from the Consolidated Fund. Instead, a Supplementary Estimate is necessary, and probably by 20 March. The sum involved would probably be £100m.

3. My earlier minute mentioned how awkward this timing will be, in relation to the European Council. There is bound to be strong criticism from both sides of the House that, if we meet the Commission's request, we in practice relax the pressure on the CAP, when we could strengthen our negotiating position by refusing to do so. And we shall not know until 26-27 March whether the European Parliament will be willing to authorise our 1983 refunds, though we shall seek the firmest possible assurances



from the Commission that they will have sufficient funds to pay the bulk of the refunds by 31 March. And the prospect of getting the Supplementary Estimate through the House during the week of the Budget debates is not an alluring one: the partial suspension of Standing Orders may well be required.

4. Notwithstanding all this, I have reluctantly concluded that the right course is for us to go on playing strictly by the Community rules. To hold back the payment, I believe, would play into the hands of other member states, and the Parliament, and complicate still further your task at the European Council. The line we have been taking is that we will only withhold our contributions if at the end of March the Community is in default on its obligations to us. I believe that we should stick to that line at least up to the European Council. It must be business as usual for the present, and the Commission request for an advance payment is a perfectly valid one.

5. My present plan, which Ian Stewart is discussing with the Whips, therefore is that if we receive a formal Commission request within the next 48 hours, we should lay a Supplementary Estimate before the House. Subject to the views of the Treasury Select Committee, to whom the Estimate has to be submitted for scrutiny (and who could well make difficulties), there might then have to be a debate after 10pm on Wednesday or Thursday of next week followed by the passage, probably in one day, of a Special Consolidated Fund Bill, which itself is not open to debate provided it is taken as first order business. We would hope that it could go through the Lords immediately thereafter. That would put us in a position to make the payment on 20 March.

6. We need not bind ourselves at this stage actually to pay the money over. You may well wish to review the position on 20 March in the light of what has in fact happened at the European Council. If necessary, we could even at that late

CONFIDENTIAL



stage decide not to pay, though this, as last year, would expose us to a claim for interest.

7. Copies of this minute go to the Lord President, the Lord Privy Seal and the Chief Whip, all of whom have already been alerted to this problem, and to the Foreign Secretary, the Minister of Agriculture, and Sir Robert Armstrong.

N.L.

N.L.

6 March 1984

*You will obviously
work to ensure
Chief Whips aware of this.
N.L.*

CONDICION

7 MAR 1984

11 12 1 2 3 4
5 6 7 8 9 10



*With the compliments of
the Attorney-General*

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

01 405 7641 Extn. 3201



SECRETARY OF STATE FOR FOREIGN AND
COMMONWEALTH AFFAIRS

A.S.C. 7/3

f.a.

1982 Risk-Sharing Refunds

with ASC?
Thank you for sending to me a copy of your minute
of 5 March to the Prime Minister.

I am content with the draft letter to the President
of the Council, enclosed with your minute.

I am copying this minute to the Prime Minister and
to the other recipients of your minute.

M.H.

Law Officers' Department
Royal Courts of Justice

6 March, 1984

ECON POC : Budget : Pt 23.

7 MAR 1984



hwe

(w)

TIME MINISTER

PAPER FOR PRESIDENT MITTERRAND

I attach a letter for you to sign and a paper for you to send to President Mitterrand, as agreed with him at Chequers yesterday.

I should draw your attention to one point about the paper. It describes, in paragraph 6, two formulae which could produce the result which we want. The first is our own safety net formula. The second is based on the French scheme which involves the VAT/expenditure gap.

At a Ministerial meeting on Thursday you and your colleagues will be asked to decide whether, provided we get the figures we want, a system based on the VAT/expenditure gap is acceptable. You may therefore think it rather odd that in advance of taking that decision you should send such a paper to President Mitterrand. The justification for doing so is that Mitterrand came close to saying to you that he could contemplate solving our problem by a system based on the VAT/expenditure gap. The paper does not actually advocate this solution but simply describes it as one of the two systems under discussion in the Community which could produce the results which the United Kingdom wants. That is perfectly true.

The paper has been agreed by the Treasury and the FCO (at official level). David Williamson believes that it would be safe for you to send it in its present form.

If you agree, perhaps you would sign the attached letter to President Mitterrand.

A. J. COLES

6 March, 1984

cc France: Visite de Pres. Mitterrand: PE4

CONFIDENTIAL

Qz.03618

MR COLES

POST-STUTTGART NEGOTIATIONS ON THE FINANCING OF THE COMMUNITY

--- As requested in your letter of 15 March to Mr Bone, I
attach a draft letter from the Prime Minister to ~~President Mitterrand~~ TPM
together with the paper which she
promised to send to him.

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

D.F. Williamson
D F WILLIAMSON

6 March 1984

cc France: Visits of Pres. Mitterrand: Pt 4

CONFIDENTIAL

Draft letter from the Prime Minister to
President Mitterrand

When we met on Monday, I promised to let you have a paper which set out ~~briefly and succinctly~~ the case for the Community agreeing on a lasting and systematic basis ^{to} a corrective arrangement to deal with the problem of the imbalance in the Community budget and which would also explain how the figure of 400-500 million ecu which I mentioned at Athens as a reasonable net transfer of resources through the Community budget for the United Kingdom to make in a twelve member Community could be achieved on a sustainable basis under such a corrective system. I enclose this paper. I hope that it will be of use to you as you prepare the March meeting of the European Council.

I much valued the opportunity we had at Chequers to discuss the whole range of European Community problems that confront us. Like you, I hope that we shall be able to make decisive progress at our meeting later this month. I am sure that it will be important for Geoffrey Howe and Roland Dumas to keep in close touch over the next two weeks.



PM/84/40

THE PRIME MINISTER

Prime Minister.

Agree letter to Mr. Chayson?
(Flag B).

A.S.C. $\frac{6}{3}$

Yes
mb

1982 Risk-Sharing Refunds

1. I attach a copy of the letter which the President of the Commission has sent me in reply to my letter of 3 January about our 1982 risk-sharing refunds, also enclosed.
2. The main points in M. Thorn's letter are as follows:
 - (i) The Commission considered at the time that there was no ground for mitigation of the UK's share in the financing of additional risk-sharing payments to Germany.
 - (ii) In preparing their preliminary draft supplementary budget in 1983 the Commission calculated the gross amount of our risk-sharing entitlement on the payments basis, but did not and has not expressed a view on whether this or the Assiette Method was the correct one.
 - (iii) The figure finally chosen by the Budget Council was a 'political figure which did not itself correspond to any precise formula of calculation'.
 - (iv) The Council has not shared the British view of the problem and, in these circumstances, the Commission does not feel that it has a locus standi for taking a further budgetary initiative.
 - (v) It does however hope that the UK's concern will find a satisfactory resolution in the Council in the context of the current negotiations on the future of the Community.
3. Thorn's letter is not as bad as it might have been, given that the Commission were never likely to accept our case fully or seek to involve themselves directly in resolving it. The most positive elements from our point of view are:
 - (i) The Commission shared our view that the issue needs to find a satisfactory solution in the context of the current negotiations.

/(ii)



- (ii) The Commission confirmed the basis used for its original calculation of the amount due to us, ie the payments basis, even though we do not accept the figure that they put forward - because of its failure to compensate the UK for its share of German risk-sharing refunds.
- (iii) The Commission took the view that the figure for UK risk-sharing refunds adopted by the Budget Council was a political figure which did not itself correspond to any precise formula of calculation.

4. When I wrote to M. Thorn in January, we knew that it was unlikely that the Commission would, in practice, come up with proposals for the payment of the outstanding element of our refund. Our aim was to keep the issue under active review until the March European Council and either to dispose of it there or to take decisions thereafter on how to pursue our claim. Thorn's reply enables us to do that. At the same time, I think we must recognise that the chances of our getting agreement from our partners for the payment of the £42 million as part of an overall settlement are not good and that the choice is likely to be between our own readiness to drop the issue in the context of agreement on a wider settlement on the one hand, and action in the Court or withholding on the other. But we shall not be in a position to know where we stand until after the March European Council and we do not wish to have to take decisions before then.

5. My letter to Thorn, while not intended to initiate legal proceedings, was drafted so that it could be cited as an initial step if we did eventually decide to go to the Court. We now need to take the next logical step so that the Council has an opportunity to resolve the issue between now and 19 March; so that when it does not do so we have good grounds for pursuing the issue at the European Council and so that, failing a satisfactory outcome there, we have built up a position procedurally either to initiate legal proceedings in the European Court or to withhold, should we wish to do so.



6. I therefore now propose to write to M. Cheysson, as President of the Council, drawing his attention to Thorn's letter and asking him, in his capacity as President of the Council, to consider how the matter can now be taken forward and resolved in the Council. I enclose a draft of the letter I plan to send, with which the Chancellor agrees. There is a difficult tactical judgement to be made as to whether I should send the letter before, and raise the matter at, the next Foreign Affairs Council on 12/13 March in order to put our partners on notice that, unless resolved beforehand, the issue will have to be raised in the European Council. The issue to be judged is whether by doing so, we would jeopardise adoption by the Council of the 1983 refund regulations - which must be our top priority. This is something which we might discuss at our meeting on 7 March. But in the meantime it would be helpful to know if you and others to whom this is copied are content with the proposed text.

7. Once the letter had issued we should be able to say in response to questions that we have taken the next logical step, namely to bring Thorn's letter to the attention of the President of the Council and to ask for the matter to be resolved there. We may need to make it clear that we are ready to raise the matter at the European Council as well, if need be. I would expect some ritual criticism in the House at the lack of immediate action on our part to safeguard the sums due to us. But no-one seriously expects us to take any action before the European Council.

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

GEOFFREY HOWE

Foreign and Commonwealth Office
5 March, 1984

The President

Brussels, February 8, 1984
n. 169

In your letter of 3 January, you informed me of your Government's view that the provision made in the 1983 Budget in respect of the risk-sharing entitlement embodied in the Council Agreement of 26 October 1982 and enshrined in Regulation n. 624/83 did not constitute a proper fulfillment by the Community of its legal obligations ; and you requested the Commission to take an initiative in the budgetary field in order to ensure that these obligations were fully discharged.

The Commission has taken careful note of your letter and has examined the issues involved again in the light of the considerations which you raised. It has reached the following conclusions as regards the possibility of further action by this Institution.

In presenting its Preliminary Draft Supplementary Budget N. 2 1983, the Commission had to be guided by the texts which the Council had adopted and by these texts alone. Thus, the Commission could see no justification, in terms of the dispositions made by the Council, for the mitigation of the United Kingdom's share in the financing of the additional risk-sharing payments to Germany to which you refer in paragraph four of your letter of January 3, 1984.

As regards the calculation of the basic risk-sharing entitlement of the United Kingdom, the Commission was guided by the relevant text of Article 1 of Regulation 624/83, which reads :

"If the actual figure is higher than 1730 million ECU, the net compensation is increased by 75 MioECU plus 75% of the difference between the actual figure and 1730 million ECU".

and by the foot-note on page 2 of the Conclusions of the Foreign Affairs Council of 26 October 1982 which stated that

./.

H.E. Sir Geoffrey Howe

"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."

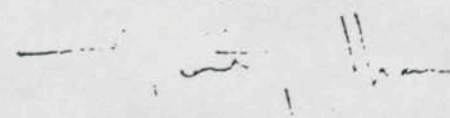
The Commission recognised, when preparing its Preliminary Draft Supplementary Budget n.2, that more than one interpretation of how to calculate the gross amount of risk-sharing entitlement was possible. The figure which the Commission presented in its Preliminary Draft (384.55 MioECU) was calculated following the interpretation (the so-called "payments" method) which the Commission had followed in the past. But the Commission drew attention at the same time to the fact that figures based on a different interpretation (the so-called "assiette" method) would only be available later in the year. The Commission itself did not express, and has never expressed, a view on which interpretation of the text was the correct one, on the premise that it is for the Council itself to decide on the proper interpretation of a Council agreement.

At the Budget Council on 22 July 1983, an amount of 307.5 MioECU was entered into the Draft Supplementary Budget established by the Council by a qualified majority vote. This figure resulted from a compromise between the views of certain Member States who considered that the "payments" interpretation was the one to be followed and others who advocated the "assiette" interpretation. It was thus a "political" figure which did not itself correspond to any precise formula of calculation.

The decision of the Budget Council in establishing its Draft Supplementary Budget n.2 was taken in accordance with the budgetary procedures prescribed under the Treaty, as was the final adoption of this budget on 24 October 1983. On several occasions since then, British representatives in the Foreign Affairs Council have argued that the risk-sharing figure in this Supplementary Budget did not properly fulfill the obligation which the Foreign Affairs Council had entered into on 26 October 1982. But the Council as a whole has not shared this view.

In these circumstances, the Commission does not feel that it has any locus standi for taking a further budgetary initiative over this issue. I hope however that your concern can find a satisfactory resolution in the Council in the context of the negotiations which are taking place concerning the future financing of the Community.

Sincerely yours,



Gaston E. Thorn



Foreign and Commonwealth Office

London SW1A 2AH

From the Secretary of State

3 January 1984

1982 Risk Sharing Refunds


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

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

When these conclusions were reached it was agreed that the UK should receive refunds in respect of 1982 which would effectively be net of the cost to the UK of the UK refund itself and of the UK's share of the payment of 210 mecus to Germany subsequently given effect under regulation 625/83. Regulation 624/83 expressly stated that the sum due was net. The basic refund of 1092 mecus gross in respect of 1982 was duly paid.

/After

M. Gaston Thorn



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

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

"The United Kingdom declares that the appropriations entered in draft supplementary and amending budget no 2, 1983 in respect of risk sharing payments to the UK do not discharge in full the obligation entered into by the Council in paragraphs 1, 3 and 5 of its conclusions of 26 October 1982. The United Kingdom recalls that paragraph 5 of these conclusions specified that the risk sharing adjustments should be entered in the budget for 1983, and accordingly calls upon the Community institutions to take the necessary action as a matter of urgency to ensure that the UK receives its entitlement in full."

The United Kingdom raised the matter again in similar terms at the Foreign Affairs Councils of 19 September and 17/18 October and at the Special Councils of 9-11 and 28-29 November. Nonetheless, the supplementary and amending budget no 2, 1983 was adopted by the Parliament on 24 October 1983

/without



without further amendment to the figures established by the July Budget Council.

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

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

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

GEOFFREY HOWE

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM

Reference

Sir Geoffrey Howe

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

HE M Claude Cheysson

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

1982 RISK-SHARING REFUNDS

CAVEAT.....

On 3 January I wrote formally to the President of the Commission drawing his attention to the fact that the requirements of regulation 624/83 in respect of UK refunds on 1982 had not been met either by the gross provision for the UK's risk-sharing payment as proposed by the Commission or by the figure established by the Budget Council in July of last year.

/

I enclose a copy of that letter and of the reply which I have now received from President Thorn, as to which the United Kingdom reserves its position. I would however like to draw your attention in particular to the passage in the President of the Commission's letter which acknowledges that the figure for the UK's risk-sharing payment established by the Budget Council was, in the Commission's view, "a political figure which did not itself correspond to any precise formula of calculation".

Enclosures—flag(s).....

While the Commission has concluded that it does not feel

/that

that it has any locus standi for taking a further initiative over this issue, the President of the Commission has expressed the hope that the matter will be satisfactorily resolved in the Council in the - context of the negotiations which are taking place concerning the future financing of the Community.

It is the British Government's hope too that the issue can be resolved in this way. I am therefore writing to ask you, in your capacity as President of the Council, to consider how the matter can now be taken forward and resolved in the Council of Ministers.

I am sending copies of this correspondence to our other colleagues in the Council and to the President of the Commission



10 DOWNING STREET

From the Private Secretary

5 March 1984

Dear Roger,

VISIT OF PRESIDENT MITTERRAND

I enclose a record of the conversation which took place at Chequers today when President Mitterrand called on the Prime Minister.

After the meeting, the Prime Minister asked that Mr. Williamson should prepare urgently the paper which she promised to send to the President and which is referred to towards the end of the record. I should be grateful if this could reach me by, at the latest, close of play on 6 March.

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

Yours ever

J. L. Cole.

cc France: Visits of Pres. Mitterrand : Pt 4

CST.

Roger Bone, Esq.,
Foreign and Commonwealth Office.

SECRET

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MR RANNAY

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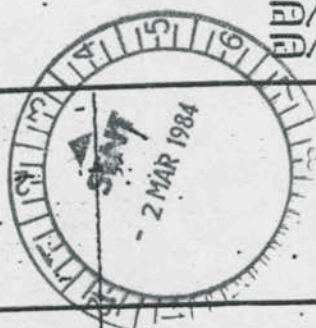
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MR J E MORTIMER

MAFF

PERMANENT SECRETARY

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TELEGRAM NUMBER 309 OF 3 MARCH

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INFO SAVING LISBON, MADRID

POST-STUTT GART NEGOTIATIONS: PRIME MINISTER'S MEETING WITH
MITTERRAND, 5 MARCH

SUMMARY

1. FRENCH TACTICS FOR THE BRUSSELS EUROPEAN COUNCIL ARE EMERGING MORE CLEARLY. THE PRESIDENCY HOPE TO PRE-COOK THE MAIN ELEMENTS IN THE PACKAGE, LEAVING ASIDE THE SIZE OF THE VAT INCREASE AND OF THE UK BUDGET REFUND, CALCULATING THAT WITH THE REST OF THE TRADE-OFFS COMPLETED THERE WILL BE UNITED OPPOSITION TO A REALLY SUBSTANTIAL REFUND.

DETAIL

2. ON PROCEDURE, THE FRENCH LOOK TO THE GYMNICH-STYLE FOREIGN MINISTERS MEETING IN BRUSSELS ON 13 MARCH TO KNOCK THE PACKAGE INTO SHAPE LEAVING THE FEW KEY ISSUES TO BE FINALLY DETERMINED BY HEADS OF GOVERNMENT. BUT SOME OF THESE ISSUES, VIZ MCAS, CONTROL OF EC SPENDING, LIMITS ON MILK PRODUCTION, AND THE PRINCIPLE OF THE UK BUDGETARY REFUND, PLUS ITS LINK WITH THE DURATION OF THE NEW OWN RESOURCES CEILING, COULD PROBABLY BE BROUGHT CLOSE TO CONDITIONAL AGREEMENT BEFORE THE SUMMIT.

3. IN ALL THIS FRANCE WOULD SEE ITSELF AS MAKING THREE MAJOR CONCESSIONS, BY ACCEPTING GENUINE LIMITS ON MILK PRODUCTION, SPANISH AND PORTUGUESE ACCESSION AND THE DURABILITY OF THE UK REFUND. IN RETURN THEY WOULD GET AGREEMENT ON THE DISMANTLING OF GERMAN MCAS - DIGGING DEEP INTO THE RESERVOIR OF GERMAN GOODWILL - AND AN INCREASE IN OWN RESOURCES WHICH IS NOW AN URGENT AND INDISPENSABLE REQUIREMENT FOR FRANCE. KCON THIS ISSUE THE DELORS

AND AN INCREASE IN OWN RESOURCES WHICH IS NOW AN URGENT AND
INDISPENSABLE REQUIREMENT FOR FRANCE. (ON THIS ISSUE THE DELORS
LINE SEEMS TO BE CRUMBLING AND THE FRENCH TARGET TO BE EDGING UP
FROM 1.4 TO 1.6% - IT SEEMS NOT UNLIKELY THAT THEY WOULD FINALLY
ACCEPT AN EVEN LARGER INCREASE AS THE COMMISSION HAVE NOW
PROPOSED). RESTRAINT ON OVERALL EC SPENDING, ESPECIALLY A CURB ON
THE EUROPEAN PARLIAMENT'S DECISIONS ON NON-OBLIGATORY SPENDING,
IS A DESIRABLE CONCOMITANT FOR FRANCE TO ANY SUBSTANTIAL INCREASE
IN THE VAT CEILING (THOUGH IT MAY WELL BE PRESENTED AS A FURTHER
CONCESSION). FRANCE WILL ALSO WANT TO SECURE SOME TRIMMINGS,
INCLUDING A STATEMENT ON NEW POLICIES. MITTERRAND MAY ALSO WANT
TO BE ABLE TO SHOW PROGRESS ON POLITICAL AND DEFENCE COOPERATION,
POSSIBLE GEARED TO FRENCH IDEAS FOR REVITALISING THE MEU, BUT THIS
WOULD PRESUMABLY BE HANDLED OUTSIDE THE EUROPEAN COUNCIL. IN THE
ENLARGEMENT CONTEXT THE FRENCH WILL WANT ASSURANCES ON MEASURES
TO HELP SOUTH WEST FRANCE (NOTABLY WINE PLUS POSSIBLE MONEY
FROM THE INTEGRATED MEDITERRANEAN PROGRAMMES). THEY ARE PREPARED
TO ACCEPT THAT SOMETHING SPECIAL MUST BE DONE FOR CERTAIN SMALLER
MEMBER STATES, NOTABLY GREECE AND IRELAND, TO BRING THEM ON BOARD
FOR THE REST OF THE BARGAIN AS THE FRENCH CONCEIVE IT.

4. THE FRENCH GOVERNMENT SEEM ALREADY TO HAVE SQUEEZED FROM THE
GERMANS AN OFFER ON MCAS WHICH WILL BE EXPENSIVE FOR GERMANY. THEY
REMAIN FIRMLY OPPOSED TO ANY KIND OF REAL BUDGETARY RELIEF FOR
GERMANY. THE COROLLARY SEEMS TO BE THAT FRANCE AND GERMANY WILL
TOGETHER ENSURE THAT THE UK BUDGET REBATE IS KEPT TO A MINIMAL
LEVEL - NO DOUBT WITH A TARGET FIGURE OF 750 MECU. IT IS NOT CLEAR
WHERE THEIR BOTTOM LINE LIES OR HOW FAR THEY HAVE GOT OTHER
GOVERNMENTS COMMITTED TO IT.

5. IF THIS ASSESSMENT IS CORRECT MITTERRAND WILL PROBABLY NOT WANT
TO TALK ABOUT FIGURES FOR THE REFUND UNTIL HE CAN FACE US WITH THE
WEIGHT OF THE COMMUNITY PACK BEHIND HIM AND WITH THE BUDGET AS THE
LAST REMAINING OBSTACLE TO AGREEMENT. IT SEEMS DESIRABLE THAT
HE SHOULD NOW BE GIVEN A FAIRLY CLEAR IDEA OF WHERE HE HAS TO SET
HIS SIGHTS IF AGREEMENT IS IN FACT TO PROVE POSSIBLE.

FCO ADVANCE TO NO10

ADVANCED AS REQUESTED

FCO PASS SAVING ADDRESSEES

FRETWELL

NNNN

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PRIME MINISTER

European Community: French Views on the
Post-Stuttgart Negotiations

I had a meeting in Paris on 29 February with Monsieur Attali of the Elysee about the post-Stuttgart negotiations on the future financing and development of the Community. Mr Williamson and Monsieur Bianco were also present. The purpose of the meeting was not only to make an up-to-date assessment of the points on which we agreed or disagreed with the French but also to discover how President Mitterrand intends to present the problems at his meeting with you on 5 March.

2. After we had made clear that you and Chancellor Kohl had continued to find common ground on many of the major issues and that you were both looking for a settlement on satisfactory terms at the next European Council, I again stressed that you would only accept a package meeting the conditions which you had set out at Stuttgart and, in particular, that the application of a lasting system for correcting the budget inequity must give rise to a satisfactory figure for the adjusted United Kingdom net contribution.

3. Monsieur Attali set out the French views on the major issues as follows:

(i) Control of spending. He shared the view that no decision should be taken which would close the option of amending at a later date the articles of the Treaty of Rome on the European Parliament's powers on non-obligatory expenditure. It was clear, however, that no amendment could be agreed in advance of the European Parliamentary elections. On the financial guideline for agricultural expenditure (obligatory expenditure) he was in favour of a formulation on the lines of that discussed at the European Council at Lancaster House. We stated that it was a requirement for the United Kingdom that the guideline should be incorporated as a legal requirement in the budgetary procedures of the Community.



(ii) The budget imbalance. Monsieur Attali said that the control of spending would in the French view be sufficient for the Germans (and a large advantage for the United Kingdom). In these circumstances it was not necessary to do anything more for Germany, which should also contribute its full share of any compensation for the United Kingdom. Mr Williamson said that our understanding of the German negotiating position was that Germany did require a limit on its net contribution just as the United Kingdom did, although the practical effect of the two limits might be quite different. Monsieur Attali said that the French approach to the budget imbalance, which he still sees as a "compensation to the United Kingdom", was based on three elements: first, France was prepared to make what he saw as a major concession to the United Kingdom and to agree that there should be a revised financing system, even though President Mitterrand had opposed such a change in the past; secondly, France was ready to agree that this should run as long as the revised level of own resources. He emphasised that by conceding these points the President would be giving you two major political victories. Thirdly, France would make these steps only if the amount of compensation to the United Kingdom resulting from the revised system did not exceed the figure of 750 million ecu agreed at Stuttgart (ie on 1982 or 1983 figures a United Kingdom adjusted net contribution of about 1200-1300 million ecu). I said that there did now seem to be progress on the adoption of a system and on duration, but I made it very clear that the French ideas on the level of compensation to the United Kingdom were a very long way from being acceptable to us. You had made clear that, in a lasting package covering also the question of own resources, you were looking for a system correcting the budget imbalance leaving a United Kingdom net contribution of the order of 500 million ecu. The gap between the United Kingdom's requirements and the French figures was extremely wide. Monsieur Attali suggested that, if agreement could not be reached in Brussels on the post-Stuttgart negotiations, the payment of the refunds due to us in respect of earlier years would be at risk. I said that in that event you would



have to protect our position, and I invited Monsieur Attali to look over the edge of the cliff at the abyss for Europe, in political as well as economic terms, that would ensue from failure to reach agreement at Brussels.

Monsieur Attali said that France now expected that the system for correcting the budget imbalance would provide partial compensation related to the difference between the VAT share and the expenditure share. We made clear that the United Kingdom's net contribution contained an element - in recent years up to 350 million ecu a year - which was the result of our high contribution of levies and customs duties. This should be covered. If this were not to be directly covered, it followed that the margin of manoeuvre in setting up an acceptable scheme based on the VAT share/expenditure share gap would be very narrow, since you would need the resulting net contribution to be no higher than the sort of level which you had indicated.

(iii) Own resources. Monsieur Attali said that seven or eight member states could accept an increase in the maximum VAT rate of 1.6 per cent or 1.8 per cent. France could accept 1.6 per cent. If, however, Germany and the United Kingdom could only agree to 1.4 per cent, France could also accept that. He suggested that one advantage of a higher figure was that it would last longer.

(iv) Agriculture. Monsieur Attali said that on MCAs France considered that the latest German proposal was a step forward, although they had not yet decided whether they could agree with it (the proposal apparently involved the dismantling of three points of the existing German positive monetary compensatory amounts in the price package by converting it into negative monetary compensatory amounts for some other member states; the dismantling of five points on a timetable still to be agreed by cutting German farmers' prices in national currency and compensating them from national funds; and the dismantling of the rest in the normal way under the gentleman's agreement). He reported that France was also



looking for various changes in the method of calculating monetary compensatory amounts, eg for pigmeat, with which we do not agree.

On milk, Monsieur Attali said that the super-levy should operate above 97.2 million tonnes but that this point should be reached in two stages; that it should apply to dairies, not farms; and that there should be exceptions for smaller farmers. Mr Williamson made clear that there are differences of view on important points on the super-levy; that it was now under detailed discussion in the Agriculture Council and the High Level Group; and that we could not pick out some points but not others for separate bilateral discussion.

4. In discussion of the preparation for your meeting with President Mitterrand I said that you could not accept that the 750 million ecu agreed for the United Kingdom's 1983 refund at Stuttgart was a proper basis for decisions on the compensation for the United Kingdom and the resulting level of net contribution under a lasting revised system of financing the Community. You had agreed to that figure at Stuttgart because, taken together with the results which had proved rather favourable to the United Kingdom in earlier years, it had been possible to present the figures over the period of four years from 1980 to 1983 as an outcome for the period as a whole consistent with the intention of the 30 May 1980 agreement (ie a net refund of about 65 per cent). It would surely be helpful to President Mitterrand's presentation of any package yet to be agreed that the settlement conceded by Monsieur Giscard d'Estaing had in one year resulted in a net contribution of almost nil for the United Kingdom.

5. When he comes to see you on 5 March, President Mitterrand will have completed his bilateral contacts with other Heads of Government. He expects, therefore to begin by giving you a summary of his conclusions from those meetings. I think that he may say that his objective is to reach as much agreement as possible before the European Council on matters which can be settled elsewhere, in order that the European Council can deal with the four or five major points that can be settled only at that level: the amount of the increase in own resources, the system for correcting budget



imbalances, the values to be put on the variables in that system (those are the values which will determine the size of our net contribution), and probably the timing of the milk super-levy. My advice is that he is likely to concentrate on these points:

- (i) prospects of an agreement at the next European Council;
- (ii) confirmation that progress towards an agreement on the control of agricultural and other spending is possible;
- (iii) unveiling of the "French package" on correcting the budget imbalance, ie a system which lasts as long as the increase in own resources and based on the VAT share/ expenditure share gap but giving compensation to the United Kingdom of about 750 million ecu (leaving a United Kingdom net contribution on 1982 or 1983 figures of the order of 1200-1300 million ecu). There should be no limit or a very high limit on the net contribution of Germany which would be required to contribute fully to the compensation for the United Kingdom. Compensation would be financed on a normal VAT key.

6. We shall be submitting briefing to you for the meeting with President Mitterrand, which will take account of this information. Monsieur Attali expressed the view that President Mitterrand would be pleased if he could reach agreement with you on some points on 5 March. On the basis of the "package" above it seems to me that you could say that you are glad that there is no further talk of ad hoc solutions; that the acceptance by member states that the new financing system is to be incorporated in the revised Own Resources Decision is realistic; and that it is now necessary to begin to discuss realistically the level of acceptable net contribution which would result for the United Kingdom from the application of a revised financing system, since the figures now being put forward by France could not lead to an agreement at the next European Council. I am sure that he knows that, and that 750 million ecu is not his final word; I judge that we shall not know his final word until Brussels; I imagine that he will not expect to hear your final word at Chequers; and that he will be



looking for any indication that you want a settlement at Brussels and that, having "won" on the system and on duration you will not arrive in Brussels absolutely inflexible on amount.

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

RA

ROBERT ARMSTRONG

2 March 1984

CONFIDENTIAL



Foreign and Commonwealth Office

Prime Minister.

London SW1A 2AH

Generally, this idea
does not attract me.

AR 7/3

2 March 1984

Peter Crompton
once proposed
something similar.

Jan Thur.

I prefer each country to
provide its own for the
Presidency.

French Ideas for a European Council Secretariat

In his speech in The Hague on 7 February, M. Mitterrand referred to the idea of having a special Secretariat to prepare the ground for European Councils. One idea that the French seem to have in mind is to try to transfer the Sherpa concept from Economic Summits to European Councils. It is just possible that M. Mitterrand may refer to this when he sees the Prime Minister on Monday.

We do not have an agreed view on this issue in Whitehall though as you know we have ourselves proposed in the past that there might be a Political Cooperation Secretariat and it is conceivable that this could also service the European Council. The Sherpa idea also has attractions and is certainly worth looking at.

I enclose a note containing some points on which the Prime Minister may wish to draw in the subject is raised. Sir Geoffrey Howe has not seen the enclosure. I shall be showing him a copy in his box tonight.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

FRENCH IDEAS FOR A EUROPEAN SECRETARIAT

POINTS TO MAKE

1. Agree with you that we ought to give some thought to handling both preparation and follow-up to European Councils.

 2. We must not neglect the existing machinery but it does not always deliver. A good example of this was preparatory work for Athens where the combination of the Preparatory Group and Special Councils clearly identified all the areas of disagreement but was not really capable of narrowing the gap. The idea of transferring the Sherpa concept to the European Council has many attractions not least the ability to reflect closely the views of Heads of Government and, as with Economic Summits, to ensure that decisions taken by the European Council are followed up.

 3. The important thing is to have a flexible system which actually works. We should be wary of proposing a new system if this would simply run into hostility from other Member States. After all, in practice, the system of contacts we have had under your Presidency, Foreign Secretary/M Dumas and Robert Armstrong and David Williamson/ M Attali almost amounts to an informal Sherpa system.

 4. We should certainly avoid adding another large bureaucracy to the existing cumbersome Brussels bureaucracy. We already have the Council Secretariat which could not simply be pushed to one side. We have given some thought to the idea of a small Political Cooperation Secretariat. We might look at that too.
- [REDACTED]



Prime Minister

A.J.C. $\frac{2}{3}$

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

FOREIGN AND COMMONWEALTH SECRETARY

COMMUNITY FINANCING

I have been watching with interest your discussions with Dumas and other Community Ministers, and I am grateful to you for keeping me so closely informed. There has clearly been some useful movement by the French: we must concentrate on trying to strike a deal with them, while watching that they do not manoeuvre us into being the odd man out.

2. This suggests to me that the Prime Minister's meeting on Monday with President Mitterrand will be particularly important. The following are the main points which occur to me on reading the draft brief.

3. First, we are furthest from the French on budgetary imbalances - both on system and amounts. It will be important to impress on President Mitterrand that we must have a system defensible in terms of our full net contribution as it has always been measured. I should have thought that the Prime Minister's brief ought to describe this as one of the main objectives for Monday's talks. I accept that it is not impossible as a matter of arithmetic to devise a VAT/expenditure gap system, on the lines now advanced by the French and others, so as to produce a UK net contribution (in an enlarged Community) at around the 400-500 mecus figure which the Prime Minister floated at Athens. But the fact is that it is very difficult to do so. Other concessions are being pressed on us; and, as you pointed out to Dumas, we would remain at risk on the levies and duties "gap", which our latest assessment suggests is unlikely to diminish, and could grow.

4. Secondly, on budgetary discipline, you have clearly moved the French quite a bit, particularly on the possibility of a Treaty amendment. But other member States are going to resist this (as I believe was confirmed at COREPER yesterday), and we are still some way from securing any legally binding control on agricultural spending, which must remain our main objective in this area. Again, therefore, it would be helpful if the Prime Minister's brief could bring out



the priority we attach to establishing a control on agricultural spending that cannot be breached by the Agriculture Council at the price fixing; and ensuring that both this and any overall budgetary control binds the Council, Commission and Parliament.

5. Finally, I am a little concerned at some recent reports on aspirations on own resources. The Commission have now recommended 2 per cent; and there has been some impression, reflected by Chancellor Kohl, that we are ready to go to 1.5 per cent. The Prime Minister corrected this with Kohl; and you have done so with Dumas. Mitterrand has been reported as ready to go to 1.6 per cent. It would be useful to make it clear to him that, at a time when - not without a struggle - we are holding public expenditure constant in real terms, it will be remarkably hard for us to justify more than a very limited increase in own resources, even if our other conditions were met.

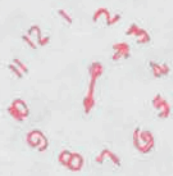
6. Copies of this minute go to the Prime Minister, the Minister of Agriculture, and Sir Robert Armstrong.

A handwritten signature, possibly 'N.L.', in dark ink.

N.L.

2 March 1984

2 - FEB 1984





File BF 288
cc Ch Exch Spue

10 DOWNING STREET

From the Private Secretary

2 March 1984

PAPER ON THE FUTURE OF THE EUROPEAN COMMUNITY

As you will recall (my letter of 28 February), the Prime Minister told Chancellor Kohl that we would produce a paper on the future of the European Community.

I have discussed this further with the Prime Minister. Mrs. Thatcher does not envisage the paper being produced in time to influence our European partners before the Brussels Summit. She regards it as a longer term exercise and would like the paper to be produced later in the year so that she and Chancellor Kohl can discuss it when he visits Chequers on a date to be arranged.

The Prime Minister envisages the paper concentrating primarily on the future of the Community in its relations with the outside world. Among the matters with which she thinks it should deal are:-

- (a) The European contribution through NATO to the defence of the West (this section should bring out clearly the burden of the defence contribution undertaken by the United Kingdom in contrast to those who do not undertake what might be regarded as their proper contribution or, indeed, do not contribute at all);
- (b) Increasing the links between the Community and democracies across the world;
- (c) Using the Community to strengthen links with Eastern Europe;
- (d) Preserving and developing essential technologies in Europe;
- (e) The relationship between the Community and the United States (this section should contain an assessment of United States global interests and preoccupations, illustrating the extent to which American interests in the trans-Atlantic relationship are balanced or counteracted by her interests to the West and South);

/ (f) NR

- (f) The relevance to the Community of strategic trade routes and sources of raw materials;
- (g) A possible role for the Community in the Middle East.

I should emphasise that the above represents merely the Prime Minister's preliminary thoughts. I am sure that Mrs. Thatcher would wish you to feel free to include other material and to treat the above subjects in such a way as to suggest a coherent policy for the future of the Community's external relations.

E. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

Paper on the Future of the European Community

You told Chancellor Kohl that we would produce a paper on the various ideas which you and he put forward for the future development of the Community. *in its relations with the outside world*

I should like to get officials working on this but would be grateful for any guidance.

No
/
Yes

Do you want this to be produced quickly in order to influence Chancellor Kohl and perhaps others before the Brussels Summit? Or do you want it to be produced later in the year so that you and he can discuss it when he comes to Chequers?

Do you have any particular ideas on the substance - or would you prefer to see a draft first?

We could, if you wished, try to deal with:-

- a) The European contribution through NATO to the defence of the West. *and how we suffer because of those who do not have their proper share of the burden*
- b) Increasing the links between the Community and other democracies across the world. *in any share*
- c) Using the Community to strengthen links with Eastern Europe.
- d) ~~Preserving~~ *or developing* essential technologies in Europe.

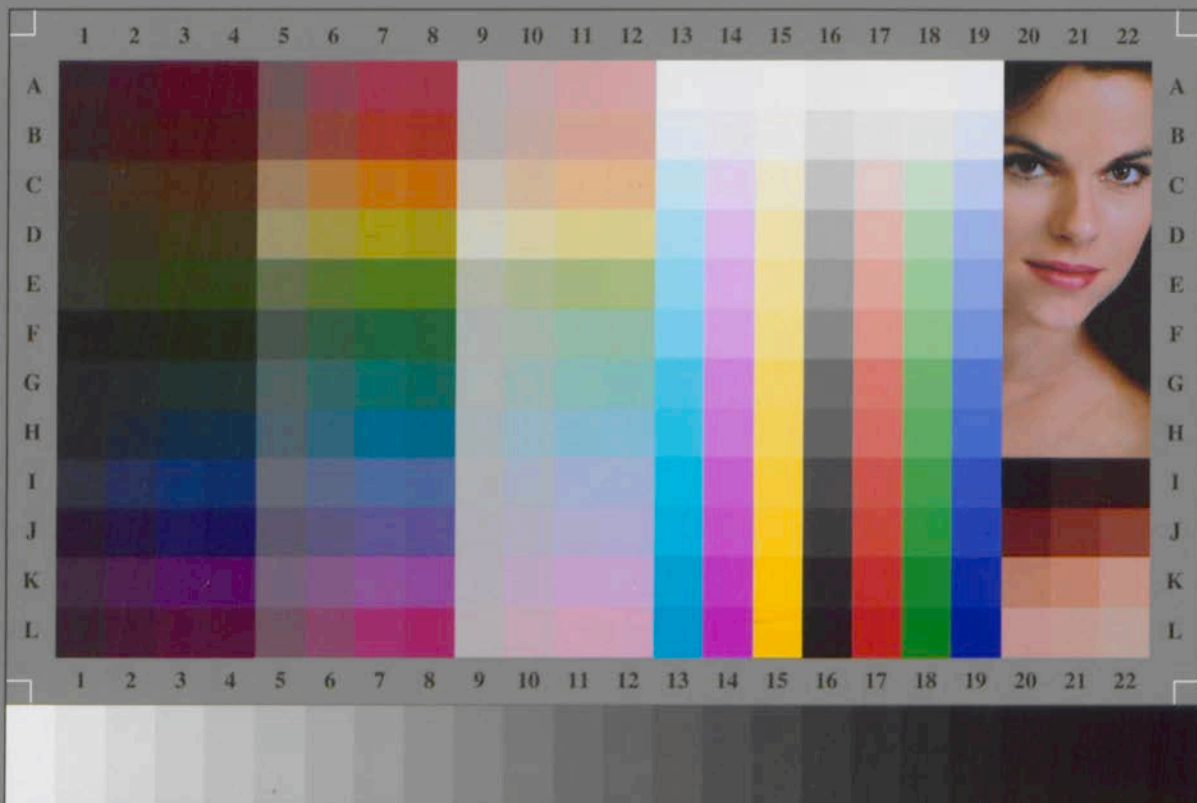
e) *A full appreciation of U.S. interests (she looks east, west & south) and her need for staunch support*

f) *Possible role in Middle East*

g) *Foreign Policy consequences of strategic trade routes & sources of raw materials.*

1 March 1984

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