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PREM 19/1228

PART 24

SECRET

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CONFIDENTIAL FILING

The Community Budget

Developments in the European Community

EUROPEAN POLICY

Pt 1: MAY 1979

Pt 24: APRIL 1984

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PART 24 ends:-

~~Paris tel 676 30.5.84~~.

Ch/Ex to PM 31.5.84

PART 25 begins:-

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TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(84) 19th Meeting, item 3	17/05/1984
CC(84) 18th Meeting, item 3	10/05/1984
CC(84) 17th Meeting, item 2	03/05/1984
CC(84) 16th Meeting, item 3	26/04/1984
CC(84) 15th Meeting, item 3	12/04/1984
OD(E)(84) 2nd Meeting, item 1	12/04/1984
CC(84) 14th Meeting, item 3	05/04/1984

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

Signed J. Gray Date 17/9/2013

PREM Records Team

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File. Treasury to submit revised proposals.

CC HO AT 14/6

Prime Minister (1)

FCO are content.

Agree?

AT 12/6

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

PM Discussed with Ch/Ex 14/6

I think it is most unwise to include these figures. Surely we do not need any for internal purposes at all.

PRIME MINISTER

PESC PROJECTION OF NET PAYMENTS TO EEC INSTITUTIONS

I have been considering what figures should be included in the internal PESC report, due to be circulated to departments before the end of June, in respect of net payments to Community institutions for future years. You will recall that, up to now, in both the PESC report and the Public Expenditure White Paper these payments have been projected on the stylised basis that the EC own resources ceiling will not be increased and that we will receive refunds equivalent to some two-thirds of our net contribution to the allocated budget.

2. It is extremely difficult to make any meaningful projections for future years at this stage. Apart from the underlying estimating uncertainties relating to our gross contributions and receipts, the level of our net payments will depend crucially on whether we reach early agreement on the budget imbalances problem. Even if agreement is reached at the European Council on 25-26 June, much will also depend on such factors as the precise details of the scheme, the timing of the payment of refunds (including the proposed further ad hoc refunds in respect of 1984), the timing of any increase in own resources, and so on. The outcome will also be affected by decisions reached on any supplementary financing for the EC budget overrun this year and next.

3. In these circumstances, I believe a detailed, worked-through projection is at this stage of little practical use. I therefore propose, for the time being, to adopt the purely stylised assumption that, in future years, our net payments to EC institutions will be the same as they were in 1983/84 - some £900 million. This represents a substantial increase in the figures in the last White Paper (£375 million, £550 million, and £600 million in 1984/85, 1985/86 and 1986/87 respectively), but the actual outcome could, of course, be even worse if no

agreement were reached and we received no further refunds. Even if agreement is reached, the last White Paper figures will still look optimistic: for example, the assumption of the continuation of both the 1 per cent ceiling and two-thirds refunds is clearly now unrealistic. (This underlines the importance of getting agreement to a refund scheme with a high rate of compensation.)

4. It is too early to decide how to handle these figures in the Autumn Statement or the next Public Expenditure White Paper. We shall need to review the position in the light of the next European Council and subsequent developments. But if agreement has still not been reached on the outstanding budget issues, I would not exclude publishing the figures on the above purely stylised basis - making it clear that the figures were neither a forecast nor a negotiating objective.

5. I am sending a copy of this minute to Geoffrey Howe.

NL.

N.L.

31 May 1984

SPEAKING NOTE ON BUDGET IMBALANCES

Glad to see that some progress has been made since Athens. But unfortunately this item still seems to be in a much less advanced state of preparation than the others. Presidency text contains some useful elements, but requires to be clarified in some parts and changed in others if it is to provide a basis for agreement. There is also a German paper and President Thorn gave me a very useful paper from the Commission when he came to see me on Friday, and which I believe he has given to others.

I suggest that we ought now to have a discussion of substance, rather than look at texts, to establish how much common ground we have and to try to settle any outstanding points of difference.

MAIN POINTS IN CORRECTIVE SYSTEM

Suggest that elements on which we are already close to agreement are:

(i) System of reliefs should provide an upper limit (threshold) on a Member State's contribution based on relative prosperity, and with upper limit (threshold) expressed as percentage of GDP. If a Member State becomes relatively more prosperous, its threshold rises accordingly.

/ (ii)

(ii) Reliefs on contributions above the limit to take the form of reduction of VAT payment in the following year.

(iii) System to be incorporated in the revised Own Resources decision, to take effect in respect of 1984, and to remain in force as long as the revised decision.

I hope I am right in thinking that this is the meaning of the Presidency text.

Let me now comment on some other points.

NOT START BY CALCULATING UK REFUND

First, I think it would be illogical and unwise to base the whole system on a calculation of a correction for the UK based on 1982 figures.

(a) last time this approach was adopted, contrary to our wishes, it gave the UK a net contribution of 9 m. ecus in 1981 which was not what others wanted.

(b) 1982 was in several respects not a typical year.

(c) since we do not yet have 1983, let alone 1984, figures, we do not know if a calculation based on 1982 will give a fair result.

So what we should do is to calculate the thresholds based on relative prosperity in a Community of 12, as the Presidency text suggests. The size of the correction will be a function of that. [Indent 2 & 7 inconsistent]

TICKET MODERATEUR

I now turn to the level of correction above the threshold. All three texts before us suggest in different words that it should be less than 100%. I will be frank. Whatever the system, I shall have to justify it to my own Parliament in terms of the net contribution which the UK will be paying. It is understandable that the Commission and other Member States should want us to make a very large contribution and should therefore want not only a high threshold but a percentage contribution beyond it. I am not convinced of the case for this. But my attitude is strictly practical. It is the result that matters. If others prefer to fix a very low threshold, I should be prepared to consider a very low percentage contribution beyond it. If not, not.

<u>ADMINISTRATIVE EXPENSES AND ENLARGEMENT</u>

Then there are the questions of administrative expenditure and the cost of <u>enlargement</u>, where proposals are made designed to increase the UK's net contribution.

On administrative expenses,

(i) Belgium and Luxembourg will, I am sure, not contest that the advantages which they draw from having the Institutions far exceed the purely budgetary expenditure in their countries. In any case excluding all admin expenditure from the allocated budget would make no difference to them because they are <u>net</u> <u>beneficiaries</u>

(ii) under the existing allocated budget, 15% of administrative expenditure is already excluded.

(iii) the UK's net contribution <u>after</u> correction will be many times our share of administrative expenses, so no-one can say we shall not be paying our subscription the club.

I strongly advise against any further attempts to make changes in the allocated budget. The text should say it will remain unchanged.

/ On

On enlargement,

(i) the net benefits which Spain and Portugal will draw in the early years after enlargement, which will be the cost to the 10, will be small.

(ii) as I have already said, I am prepared now to accept a system based on relative prosperity in a Community of 12; that will take account of enlargement.

(iii) it would be contrary to everything that has been said about not hypothecating expenditure to "neutralize" the costs of enlargement as the Commission suggests. to charge it up separately.

THE GAP

Finally I turn to the most difficult problem, the measurement of the burden. The real burden for a Member State, as everyone knows and as the discussion of the costs of enlargement shows, is the net outflow of funds to Brussels and on to other Member States. Without correction more than 160 million ecus a month £600m would have flowed out of London into the allocated budget. I cannot deceive the British Parliament and pretend the gap is something less.

/ The

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

The German and Commission papers suggest measuring the imbalance by the difference between expenditure shares and VAT shares, that is to say counting the tariffs and levies as though they were VAT. I see no justification for doing this, since:-

France
VAT 23.9
Levies 12.6
Duties 15.7

U.K.
VAT 22
Levies 24.6
Duties 26

(i) it discriminates against the UK, and incidentally against Belgium and the Netherlands, while discriminating in favour of Germany and France. We calculate that to treat German and French tariffs and levies as though they were VAT would be to measure their gaps as being roughly 200 m. ecus and 700 m. ecus more respectively than their whole net contributions.

Their share of tariffs & levies is smaller than share of VAT. Our share + Belgium & Netherlands is bigger.

(ii) in the case of the UK, on the average of the four years up to 1982, our VAT/expenditure share gap has been 350 m. ecus less than our real gap.

So a threshold system based on VAT/expenditure share gap would have to produce a threshold 350 m. ecus lower than one based on the own resources/expenditure share gap.

/ Even

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

CONCLUSION

Mr. President, there remains much to be settled. There is also the question of the German request for a limit to be looked at. We cannot do it all at once. I suggest that we ask the Secretary-General to produce a new paper which sets out the elements of an arrangement on which we might all be able to agree. It should leave on one side for the moment the vexed question of the measurement of the gap to which we can return later. The sooner he can do this the better.

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

No rational arguments have been advanced in favour of the UK making a net contribution of 1,000 m. ecus or more. [The average for the last four years has been just over 500 m. ecus]. We shall only be just above the average in relative prosperity in a Community of 12 in 1986. If we get richer, absolutely and/or relatively, we shall have a higher limit. Four Member States

/ much

much more prosperous than us will remain net beneficiaries. Each 100 m. ecu of relief for the UK reduces their net benefits by very small sums - for example, 2 m. ecus for Denmark. So I must ask that the threshold, and ticket moderateur if there is to be one, be set at a level which produces a total net contribution for the UK of the order of 4-500 m. ecus.

Burden on us very large.

VAT or Payments Basis.

Expenditure on basis of present allocated budget,
i.e. where expenditure falls.
[Not allocated Aid some Admin,
Aid to non-associates, Food Aid]

AGRICULTURE

Speaking note for the Prime Minister

The Presidency is right to concentrate on the major questions in the agricultural part of the post-Stuttgart negotiations. I have a limited number of points, but they are important. This European Council must give a bigger impetus to reforming the operation of the common agricultural policy (eg guarantee thresholds, price restraint) and to avoiding misuse of resources.

First, milk. The Agriculture Ministers have reached an agreement on the main elements of the quota/superlevy system. I would recall to my colleagues that this will be hard for British farmers, who will take a cut in the volume of milk deliveries of more than 7%. This is a bigger cut than for dairy farmers in, for example, France, Italy or Luxembourg (France 2.9%, Italy 5.2%, Luxem bourg 6.3%) With our Netherlands colleague we have a reserve on the proposal that there should be an extra 0.6 million tons of milk above the basic 97.2 million tons (98.2 million in 84/85). The United Kingdom is strongly opposedto any form of exemption or discrimination in the quota/superlevyscheme. If I were to withdraw my reserve on the 0.6 million tons, I would need to be sure that it would cover all the special demands from Ireland, Northern Ireland, Italy, Luxembourg and Greece.

Irish case

Secondly, MCAs. The documents give the impression that there is one problem remaining. In my view there are two. There is the question of any Community financial contribution to the German measures. There is also an important general reserve because we need to be sure that there are rules governing the phasing out of the negative monetary compensatory amounts created or likely to be created by the new system. The proposed new system will be very expensive. We need some safeguards. I propose that the phasing out of negative MCAs should be over 3 years.

Thirdly, guarantee thresholds in general. We were close to an agreement in Athens. Guarantee thresholds are the centrepiece of our long term policy. We need them where products are or are likely to be in surplus, or where expenditure is rising quickly or where production is increasingly more rapidly than consumption. I understand that these matters have been incorporated in a new text which we must endorse here as part of our proposals.

Fourthly, cereals. I hope that we can agree that the Community does intend to progressively narrow over a period of years the gap between Community prices and those of our principal competitors. That would certainly be welcome to our livestock farmers. If so, we should say so.

Finally, I do not propose that this meeting of the European Council should discuss in detail the beef variable premiumor the calculation of the ewe premium. The beef variable premium should continue. We can look at this and the ewe premium again in 1985.

I raise these points so that they can be reflected later in a revised Presidency text.

Our reasons
should be [illegible]
[illegible]

AGRICULTURE

Reserve for later

The cash shortage in 1984

The President of the Commission is right to draw our attention to this looming problem. I do not under-rate its importance in the short term . But we cannot solve it here and now. First, the Agriculture Ministers have not yet completed their package, although they have moved forward. They must be told to continue their search for savings. Secondly, this is March: we simply cannot be sure exactly how the agricultral expenditure is going to turn out. Thirdly, we have to settle our major long-term issues in the post-Stuttgart package first, including the question of budget imbalances which is critical for my country.

If it looks like packing up without agreement, I do think we should propose a Foreign Minister's meeting in 10 Day's time.

Progress on all ~~[illegible]~~ subjects – eg, discipline, system, etc.

: not give up.

Even if not accepted, it will help with press

Prime Minister

Budget Imbalances text only.

NET

We need the word "net" after
the figure at X. If anyone challenges
this you should point out that otherwise
the U.K. will be financing its own
reduction. This would be contrary to what
is said at the bottom of the previous
page – burden to be borne by the other
member States.

2. We need to get it confirmed that
Y means VAT on a payments basis and
the allocated budget as at present constituted.

Line to take. I assume that "in accordance
with existing criteria" means VAT on a payments
basis and the allocated budget as at present
Constituted. Perhaps the Secretary-General could
note that this is agreed. Michael Butler

Prime Minister.

1982 Risk-sharing: £42m.

We discussed this in the plane.

Options. 1) scoop it up at the end. V. difficult.

2) trade it for right figure on refund. Just possible

3) Go to Court.

£42m is 70m ecus. One possible line to take if you went for option 2).

As you know, there is one outstanding budgetary dispute between us. A majority of budget Ministers arbitrarily reduced our 1982 risk-sharing money by 70m ecus in

D R A F T

CONCLUSIONS OF THE PRESIDENCY

INTRODUCTION

The European Council reached agreement on a series of decisions and guidelines to ensure the relaunch of the Community and establish a solid basis for its further development during the present decade.

During this period, it will be important to maintain and consolidate the "acquis communautaire", particularly for a modernized common agricultural policy, increase efforts towards greater convergence between the Member States, move towards enlargement of the Community under satisfactory conditions and give priority to action to strengthen the competitiveness of Community industries.

The European Council considers that by pursuing these guidelines the Community will make a significant contribution to the economic growth of the Member States and to the combating of unemployment.

It considers that only a stronger European identity will lead to the Community playing its full role in the world, in particular with a view to re-establishing economic and monetary stability.

NEW POLICIES

With a view to the creation of a genuine Economic Union, the Council intends, through specific commitments, both externally and internally, to give the European economy an impetus comparable to that which it derived from the founding of the Customs Union in the early sixties.

The following priority objectives will be pursued:

- convergence of economic policies and Community action, capable of promoting productive investment and thereby a vigorous and lasting economic recovery;

- development, in close consultation with the Community industries and bodies concerned, of Europe's scientific and technological potential;

- strengthening of the internal market so that European undertakings derive more benefit from the Community dimension;

- protection of employment, which is a crucial factor in Community social policy.

The European Council asks the Council of Ministers to actively pursue the examination of the Commission proposals which already meet these objectives and requests the Commission to report to it in time for its meeting in June on the progress made on revitalizing Europe, laying particular emphasis on the following sectors:

(a) The European Council stresses the importance of the agreement reached on the launching of the ESPRIT programme, which is an exemplary co-operation project between undertakings.

It expects the Council of Ministers to specify without delay the other areas in which Community initiatives are called for.

An outline programme will be adopted before the end of the first half of 1984 in the areas of telecommunications and bio-technology. Scientific and technical co-operation and exchanges will be intensified in the Community, in particular by the encouragement given to mobility among researchers.

It agrees on the need to increase the proportion of Community resources devoted to financing priority Community research and development activities.

(b) The European Council is satisfied with the agreement reached on reducing technical barriers to trade and combating illegal commercial practices by the Community's partners, and considers that new measures need to be adopted rapidly to:

- simplify formalities in trade within the Community and modernise the customs system,

- harmonize European standards and products, and open up public contracts in the Member States to European undertakings,

- harmonize conditions of competition and progressively liberalize trade in services, notably in the transport and insurance sectors,

- implement a common transport policy and a transport infrastructure programme of Community interest,

- develop a suitable climate for co-operation between European undertakings by establishing a favourable legal and tax framework.

- make full use of existing financial instruments to aid Community policies, and to encourage productive investment.

(c) The European Council reaffirms that the ECU is the central element and pillar of the EMS. It is pleased with the spontaneous growth in the private use of the ECU and notes that the Council of Ministers is continuing its discussions with a view to developing the EMS by making specific adjustments.

Steps will be taken to encourage greater use of savings available within the Community for financing investment. The Council therefore considers that significant progress will be made in order to improve financial integration within the Community.

(d) The European Council asks that, before its next meeting in June 1984, the arrangements necessary for the organization of the European Social Area be prepared, with the aim of fully associating social forces with the economic and technological changes which are decisive for recovery prospects within the Community.

It also requests the Ministers for Education and the Commission to consider ways and means of promoting language teaching in each Member State.

COMMON AGRICULTURAL POLICY

The European Council reaffirms the Community's resolve to ensure the continuity and development of the common agricultural policy in compliance with the basic principles thereof, as set out in Article 39 of the Treaty, and in the desire to increase efficiency in the agricultural sector as a whole by means of rationalization in relation to current economic conditions.

In this context the European Council approves the points of agreement reached within the Agriculture Council as embodied in the documents on MCAs (5803/84), milk (5802/84), other products and the method of calculating MCAs (5847/84).

In addition, the European Council adopted the following text:

Commercial policy

The European Council considers that the adjustment to the market situation for all products coming under the common agricultural policy, particularly through the creation of guarantee thresholds and co-responsibility, will enable the Community to base its agricultural export policy on a sound economic foundation and ensure satisfactory compliance with the Community preference and its international commitments.

The framework agreements concluded with third countries for the supply of agricultural products can constitute one of the instruments of its export policy.

The Community will also have to contribute to the development of a food strategy for the developing countries, with priority for the African, Caribbean and Pacific countries. In that context, specific agreements may be concluded with those countries which so request in the context of their food security policies.

Finally, within multilateral fora the Community will ensure that comparable obligations obtain in the development of agricultural trade for the main partner exporting countries.

Lastly, the European Council would adduce the following further points:

The European Council decides that the 600 000 t reserve provided for in paragraphs 2 and 3 of the agreement on milk reached within the Agriculture Council is increased to /‾900 000 t_7 /‾1 million t_7. The reserve will be distributed by the Commission in accordance with guidelines to be worked out by the Council having regard to particular problems in Ireland, Italy and Luxembourg. The European Council further agrees to ask the Agriculture Council, acting on a proposal from the Commission, to take a decision providing for special measures for Irish agriculture under the EAGGF, Guidance Section, with a view in particular to rationalizing stock-farming; the cost of these measures will not exceed 40 MECU.

/¯- the tax on oils and fats_7

The European Council calls on the Council (Agriculture) to adopt the acts relating to the aforesaid decisions, before 31 March 1984.

- MCAs: amount of Community aid.

The Community will make a contribution towards financing this aid on a decreasing scale in 1985 and 1986. A Community contribution may be decided on in 1987 in the light of trends in the level of national compensation effected by the Federal Republic of Germany, duly authorized by the Commission. The Commission will in due course submit a proposal to the Council, which will take a decision at the earliest opportunity.

STRUCTURAL FUNDS

1. The European Council considers that the Structural Funds should become effective Community policy instruments aimed at alleviating regional development lags and converting regions in industrial decline; promoting dynamic and competitive agriculture by maintaining and developing effective agricultural structures, in particular in the less-favoured regions; combating unemployment, in particular youth unemployment.

To that end:

(a) Management of the Funds will be improved having regard to the observations of the Court of Auditors, in particular by a suitable evaluation of the aid they provide and the elimination of any duplication, through improved co-operation between the Commission and the Member States.

(b) An attempt will be made to combine aid from the various Funds, for example in the form of integrated programmes.

With this in mind, integrated Mediterranean programmes will be launched in favour of the southern regions of the present Community so as to be operational in 1985. Designed to be of limited duration, such programmes will have as their aim improvement of the economic structures of those regions to enable them to adjust in the best conditions possible to the new situation created by enlargement. They will also prepare a solution to the problems raised in the Greek Memorandum.

(c) Within the framework of the accepted principles governing budgetary discipline and the future financing of the Community, the financial resources allocated to aid from the Funds, having regard to the IMPs, will be /‾substantially_7 increased in real terms.

The current discussions initiated on the basis of the Commission's proposals, relating to the revision of the ERDF and the EAGGF Guidance Section, must be concluded before the next meeting of the European Council.

BUDGETARY AND FINANCIAL DISCIPLINE

1. The European Council considers it essential that the strict rules which at present govern budgetary policy in each Member State also apply to the budget of the Communities.

The level of Community expenditure will be fixed as a function of available income.

Budgetary discipline, which calls for a combined effort by all the Institutions within their respective powers, will apply to all budget expenditure.

2. The European Council invites the Council of Ministers for its part:

- to fix at the beginning of the budget procedure a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year;
- so to proceed that the net expenditure relating to agricultural markets calculated on a three-yearly basis will increase less than the rate of growth of the own resources base. This development will be assessed on comparable bases from one year to the next. Account will be taken of exceptional circumstances, in particular in connection with enlargement. The provisions laid down in the Commission document on financial guidelines concerning the common agricultural policy will be implemented;
- to undertake to comply with the maximum rate throughout the budget procedure. On the first reading the Council will keep the increase in Non-Compulsory Expenditure at a level no higher than half the maximum rate. On the second reading the Council will adopt a position such that the maximum rate is not exceeded.

3. The European Council requests the Council of Ministers to adopt the necessary implementing measures for the principles set forth in paragraph 2, /‾which will supplement the Financial Regulation._7

BUDGETARY IMBALANCES

Control of expenditure and rebalancing of the budget constitute in the long term the essential means for resolving the problem of budgetary imbalances.

However, pursuant to the Stuttgart Declaration, any Member State which bears an excessive budgetary burden with respect to its relative prosperity may benefit from a correction at the appropriate time.

The details of the correction will be adopted by the Council of Ministers by June taking account of the following factors:

- the basis for correction is the disparity between the share in the VAT basis of assessment and the share in allocated expenditure;

  A part of the administrative expenditure will be charged to each Member State in accordance with a formula to be determined.

- correction will only occur above a certain threshold, to be determined, which will be expressed as a percentage of absolute GDP in a Community of 12; this percentage will vary according to the relative prosperity of each Member State as indicated by its per capita GDP;

- a Member State benefiting from compensation will bear a percentage, to be determined, of the additional cost arising from the increase in the basis of the correction, including the expenditure linked to enlargement;

- the correction will be deducted from the normal share of VAT of the Member State concerned in the budget year following that in respect of which the correction has been made; the resulting burden for the other Member States will be allocated according to their normal share of VAT;

- corrections will be an integral part of the new financial system. They will apply until the new own resources are exhausted.

In the case of the United Kingdom the correction would amount to .... MECU, on the basis of ..... MECU, taken as an example and calculated as shown above. For 1984 this correction will be fixed by analogy with the correction arrangements to be applied from 1986 onwards. It will be paid in 1985 in accordance with procedures to be determined which will not affect the level of Community expenditure.

OWN RESOURCES AND ENLARGEMENT

The maximum rate of mobilization of VAT will be /¯1,X%_7; this maximum rate applies to every Member State and will enter into force as soon as ratification procedures are completed and by 1 January 1986 at the latest.

The European Council requests that the negotiations on the accession of Spain and Portugal be completed by 30 September 1984 at the latest. This will make it possible for both texts requiring ratification, i.e. the texts on enlargement and on the creation of new own resources, to be submitted to national parliaments simultaneously.

When the new VAT ceiling has nearly been reached, the Commission will submit a report on the results of budgetary discipline, the Community's financial requirements, developments in the structure of the budget and their impact on the situation of the Member States. This report will be accompanied by appropriate proposals.

The Council of Ministers will take the necessary measures on the basis of the Commission report.

For the record: Financing of the Community budget prior to the entry into force of the decision on new own resources.

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MS

MY TELNO 661: MITTERRAND'S SPEECH TO THE EUROPEAN PARLIAMENT

SUMMARY

1. MITTERRAND'S SPEECH CAN BE ANALYSED IN BOTH A SHORT AND A LONG TERM CONTEXT, THE DIVIDING LINE BEING THE EUROPEAN ELECTIONS AND EUROPEAN COUNCIL NEXT MONTH. IN BOTH CONTEXTS THERE IS A MIXTURE OF IDEALISM AND CYNICISM. FROM THE BRITISH POINT OF VIEW THE SPEECH IS MORE INTERESTING FOR THE LIGHT IT MAY THROW ON THE TACTICAL MANOEUVRING IN WHICH MITTERRAND IS ENGAGED IN RELATION TO THE UK AND THE BUDGET.

DETAIL

ELECTORAL FACTORS

2. AS AN ACT OF DOMESTIC POLITICAL CAMPAIGNING THE SPEECH WAS CLEVER. IT STOLE AS MANY OF THE OPPOSITION'S EUROPEAN CLOTHES AS POSSIBLE (EG ON EUROPEAN SECURITY, A SECRETARIAT, MAJORITY VOTING AND EUROPEAN TECHNOLOGY). THE PASSAGES ON ENLARGEMENT AND COMMUNITY FINANCE WERE DRAFTED DEFENSIVELY WITH OPPOSITION ARGUMENTS IN MIND. THE PROPOSAL ON EUROPEAN UNION COULD OPEN UP STRAINS WITHIN THE OPPOSITION COALITION. IN A LIMITED, TACTICAL SENSE, THE SPEECH ALLOWS THE SOCIALIST PARTY TO PROJECT ITSELF IN THE ELECTORAL CAMPAIGN AS THE PARTY WITH THE MOST POSITIVE AND COHERENT VISION FOR THE FUTURE OF EUROPE. WHETHER IT WILL HAVE ANY SIGNIFICANT EFFECT ON THE COURSE OF THE ELECTIONS IS ANOTHER MATTER: I DOUBT WHETHER AT A POPULAR LEVEL IT HAS MADE MUCH IMPACT. IN ANY CASE MITTERRAND'S COMMUNIST SUPPORTERS, AND SOME OF HIS SOCIALIST ONES, WILL NOT ENDORSE SEVERAL KEY POINTS IN HIS SPEECH.

EUROPEAN IDEALISM

3. MITTERRAND CAN REASONABLY CLAIM A PERSONAL COMMITMENT TO A EUROPEAN VISION AND WOULD NOT BE AVERSE TO TAKING HIS PLACE IN HISTORY AS A VISIONARY AND AN ARCHITECT OF EUROPE. THERE IS A TRADITION OF FRENCH PRESIDENTS DREAMING UP IDEAS FOR INSTITUTIONAL ADVANCE, PARTLY DETACHED FROM THEIR ATTITUDES TO THE PRACTICAL CONDUCT OF COMMUNITY AFFAIRS. IT WAS POMPIDOU WHO RELAUNCHED EUROPEAN UNION IN 1972. GISCARD LAID HIS CLAIM TO FAME BY PROPOSING THE EUROPEAN COUNCIL (MEETING REGULARLY INSTEAD OF AD HOC SUMMITS) AND ACCELERATING THE START OF DIRECT ELECTIONS TO THE EUROPEAN PARLIAMENT. THE FRENCH SEEM TO REGARD IT AS MORE IMPORTANT TO BE IN THE LEAD ON SUCH MATTERS THAN TO CONSIDER

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/WHETHER

WHETHER THEIR PROPOSALS ARE REALISTIC OR USEFUL. IN ANY CASE IT HAS ALWAYS SEEMED EASIER FOR FRANCE, GERMANY, ITALY AND BENELUX - FOR DIFFERING REASONS - TO ENDORSE HIGH SOUNDING DECLARATIONS ABOUT EUROPEAN UNION THAN IT HAS BEEN FOR THE REST OF THE TEN.

PRACTICAL REFORMS: MAJORITY VOTING

4. ON INCREASED USE OF MAJORITY VOTING, MITTERRAND'S SPEECH DOES LITTLE MORE THAN ADVOCATE WHAT IS NOW BECOMING ESTABLISHED PRACTICE. THE FRENCH AND OTHERS SEEM GENUINELY TO HAVE COME TO ACCEPT OVER THE LAST YEAR OR SO (BUT PARTICULARLY IN THE LAST FEW MONTHS) THAT MAJORITY VOTING IS NECESSARY AS A NORMAL PRACTICE TO ENABLE THE COMMUNITY TO FUNCTION EFFICIENTLY. THEY DUCK THE DIFFICULT QUESTION OF WHAT HAPPENS WHEN A COUNTRY INVOKES IMPORTANT NATIONAL INTERESTS ON A MATTER WHERE THE OTHERS DO NOT THINK THE QUESTION MERITS THAT DESCRIPTION.

TACTICAL CONSIDERATIONS

5. FOR SEVERAL MONTHS THERE HAVE BEEN ECHOES OF QUITE EXTENSIVE FRANCO-GERMAN EXCHANGES ON THE THEMES OF POLITICAL UNION, MULTI-SPEED EUROPE ETC. I THINK THE FRENCH MAY BE EXPLOITING GERMAN IDEALISM FOR A NARROWER PURPOSE. THIS APPLIES TO THE GENERAL CONCEPT OF EUROPEAN UNION. IT MAY ALSO APPLY, AND WITH A MORE SPECIFICALLY ANTI-BRITISH INTENT, TO THE REFERENCES TO MAJORITY VOTING.

6. THE FRENCH MAY BELIEVE THAT FOLLOWING THEIR OWN SHIFT OF POSITION THE UK IS LEFT AS THE SOLE DEFENDER OF AN EXTREME VERSION OF THE LUXEMBOURG COMPROMISE WHICH WOULD MORE OR LESS RULE OUT VOTES ON ANY OCCASION. THEY MAY ALSO HAVE A FEELING, FOLLOWING THE EVENTS SURROUNDING THE AGRICULTURAL PRICE FIXING IN 1982 WHEN THE BRITISH VETO WAS OVERRIDDEN BY MAJORITY VOTING, THAT VOTING PROVIDES AN ANSWER TO ATTEMPTED BRITISH OBSTRUCTION OF COMMUNITY BUSINESS IN THE PURSUIT OF OUR BUDGET CLAIMS. THIS LINKS WITH VAGUE TALK ABOUT THE COMMUNITY BEING ABLE TO FORGE AHEAD DESPITE THE PROBLEM OF THE BRITISH CONTRIBUTION AND A SUGGESTION THAT THE SUCCESSES OF THE LAST FIVE MONTHS HAVE SOMEHOW BEEN ACHIEVED IN SPITE OF BRITAIN. IN AN ILL-DEFINED WAY IT EVEN SEEMS TO BE HINTED THAT VOTING CAN CARRY THE COMMUNITY FORWARD PAST THE BRITISH OBSTRUCTION ON THE MATTER OF THE VAT CEILING. I DO NOT BELIEVE THE FRENCH HAVE THOUGHT THIS THROUGH. THEY MAY NOT BELIEVE IT THEMSELVES AND IT MAY BE DESIGNED SIMPLY TO PUT POLITICAL AND PSYCHOLOGICAL PRESSURE ON US. BUT I SUSPECT IT PLAYS SOME PART IN THEIR THINKING.

FURTHER OUTLOOK

7. HOW MUCH OF THE MITTERRAND PROGRAMME IS LIKELY TO PERSIST AFTER THE EUROPEAN ELECTIONS AND THE FONTAINEBLEAU EUROPEAN COUNCIL? MITTERRAND WILL WANT HIS INITIATIVES LINKED TO HIS NAME IN THE HISTORY BOOKS: AND HE WILL FIND THAT THE ENTHUSIASM OF SOME OF HIS PARTNERS AND OF THE EUROPEAN PARLIAMENT WILL CREATE A BANDWAGON WHICH MIGHT BE QUITE HARD TO SLOW OR EVEN TO STEER. THE

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/WISH

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WISH TO SHOW UP THE UK AS LESS EUROPEAN THAN FRANCE WILL ALSO REMAIN A FACTOR. BUT I LEAN TO THE SCEPTICAL INTERPRETATION OF FRENCH CONDUCT AND WOULD EXPECT ENTHUSIASM TO WANE AS THE MOMENT APPROACHES TO TAKE HARD DECISIONS EG WHETHER A NEW COUNCIL, OPERATING UNDER A NEW TREATY, COULD ACTUALLY TAKE DECISIONS IN MATTERS CONCERNING EDUCATION, JUSTICE OR TERRORISM IN A MEMBER STATE. AN ELABORATE COVER FOR ANOTHER TALKING SHOP IS SURELY ALL THAT FRANCE WOULD ULTIMATELY TOLERATE.

UK RESPONSE

8. YOU HAVE ALREADY PUT THE BALL BACK IN THE FRENCH COURT BY MAKING IT CLEAR THAT BRITAIN WOULD EXPECT TO PLAY A FULL PART IN ANY DISCUSSIONS AND IN ANY POSITIVE DEVELOPMENTS IN THE DIRECTIONS SUGGESTED BY MITTERRAND. PERHAPS FURTHER RESPONSE TO THE FRENCH PROPOSAL COULD INCLUDE THE LINE THAT WE ARE ALREADY ACTIVELY ENGAGED IN COOPERATION ON SUCH MATTERS AS TERRORISM: WE ARE READY TO GO FORWARD: WE DO NOT EXCLUDE THE POSSIBILITY OF A FURTHER TREATY OR TREATIES IF THEY PROVE ESSENTIAL: BUT WE WOULD LIKE THEM TO GROW OUT OF A DEMONSTRATED NEED TO IMPROVE THE MACHINERY FOR COOPERATION RATHER THAN TO BE SUPER-IMPOSED AS A HOLLOW FRAMEWORK WHICH MIGHT INDEED MERELY SERVE TO DISGUISE A LACK OF REAL WILL TO WORK TOGETHER.

FCO PASS SAVING UKDEL STRASBOURG

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10 DOWNING STREET

From the Private Secretary 29 May 1984

President Mitterrand's Ideas on Community Institutions

The Prime Minister has noted the contents of your letter of 24 May.

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

da

GR 500

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[FRAME ECONOMIC]

UNCLASSIFIED

FM PARIS 281605Z MAY 84

TO PRIORITY F C O

TELEGRAM NUMBER 666 OF 28 MAY

INFO PRIORITY UKREP BRUSSELS

INFO SAVING ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, ROME.

MO

FRANCE/EC: INTERVIEW WITH DUMAS

SUMMARY

1. LE MATIN (SOCIALIST DAILY) CARRIED ON 28 MAY AN INTERVIEW WITH DUMAS, MINISTER FOR EUROPEAN AFFAIRS, DEVOTED TO POLITICAL UNION, THE BUDGET AND THE MULTI-SPEED CONCEPT. HE WAS VAGUE ON THE FOLLOW-UP TO MITTERRAND'S STRASBOURG SPEECH, BUT SAID THAT FRANCE WOULD HAVE CONCRETE PROPOSALS TO MAKE AT FONTAINEBLEAU. ON THE BUDGET HE MAINTAINED THAT THE COMMUNITY COULD CARRY ON, AT A LOWER LEVEL OF ACTIVITY, EVEN IF THE QUESTION OF BRITAIN'S CONTRIBUTION WAS NOT SETTLED AND SUGGESTED THAT THE INCREASE IN OWN RESOURCES COULD BE DISSOCIATED FROM THIS ISSUE. HE DECLARED HIS READINESS TO MEET YOU IN THE NEAR FUTURE.

DETAIL

2. IN RESPONSE TO QUESTIONING ABOUT MITTERRAND'S STRASBOURG SPEECH, IN PARTICULAR HIS REFERENCES TO POLITICAL UNION, DUMAS STUCK CLOSELY TO MITTERRAND'S FORMULATIONS, BUT STRESSED THE SIGNIFICANCE OF FRANCE'S SUPPORT FOR THE BASIC IDEA OF THE SPINELLI DRAFT TREATY, AND RECALLED THAT MITTERRAND HAD COMMENDED ITS INSPIRATION (RATHER THAN ITS SPECIFIC PROPOSALS). HE ALSO REMINDED THE INTERVIEWER THAT BEFORE SPEAKING OF POLITICIAL UNION, MITTERRAND HAD ARGUED THE NEED TO CONSOLIDATE THE EXISTING STRUCTURE. FRANCE WOULD MAKE PROPOSALS TO HER PARTNERS AT FONTAINEBLEAU ON EACH OF THE QUESTIONS MENTIONED BY MITTERRAND, INCLUDING THE POSSIBLE TREATY ON EUROPEAN UNION. HE, DUMAS, WOULD HAVE TO SET TO WORK TO GIVE MITTERRAND'S GENERAL APPROACH A MORE CONCRETE FORM, INCLUDING THE IDEA OF A PERMANENT SECRETARIAT FOR THE EUROPEAN COUNCIL, WHERE NO FRENCH JUDGEMENT HAD YET BEEN MADE ON THE VARIOUS POSSIBLE FORMULAE.

3. DUMAS DENIED THAT MITTERRAND HAD BEEN SUGGESTING A CONFERENCE OF LESS THAN TEN MEMBERS ON POLITICAL UNION OR HAD AIMED HIS REMARKS ABOUT A TWO-SPEED EUROPE AT BRITAIN. HE HAD SIMPLY WANTED TO LEAVE A CERTAIN FLEXIBILITY. THE HARD CORE OF THE COMMUNITY WAS THE SIX. ONE COULD BUILD AROUND IT IN CONCENTRIC CIRCLES OF DIFFERENT DIMENSIONS. DUMAS SAID THAT HE HIMSELF WAS IN FAVOUR OF DOING AS MUCH AS POSSIBLE AT THE LEVEL OF THE TEN AND HAD NOTED WITH PLEASURE YOUR STATEMENT THAT BRITAIN DID NOT INTEND TO BE LEFT OUT OF NEW PROJECTS.

/4. ON

4. ON BUDGET IMBALANCES, DUMAS DENIED THAT MITTERRAND HAD HARDENED HIS POSITION. HE HAD SIMPLY RECALLED THE PRINCIPLES WHICH UNDERLAY THE POSITION OF THE OTHER NINE. PRESSED ON WHETHER ANYTHING NEW COULD BE ACHIEVED WITHOUT A SETTLEMENT OF THE BRITISH PROBLEM, DUMAS OBSERVED THAT ONE COULD DO LESS WITH LESS MONEY, BUT WENT ON TO SUGGEST, WITHOUT BEING SPECIFIC, THAT THE BRITISH RESERVE ON THE INCREASE IN OWN RESOURCES NECESSARY FOR ENLARGEMENT, COULD BE LIFTED EVEN IF A SOLUTION ON THE BRITISH CONTRIBUTION WAS DEFERRED. (HE AIMED THE SAME THOUGHT TO THE HOUSE OF COMMONS FAC ON 22 MAY, BUT HIMSELF QUESTIONED WHETHER THE HOUSE WOULD EVER ACCEPT IT). AS FOR MAKING UP THE GAP CAUSED BY NECESSARY AGRICULTURAL SPENDING, THE COMMISSION WOULD HAVE TO PUT FORWARD A SUPPLEMENTARY BUDGET. THIS COULD BE VOTED BY QUALIFIED MAJORITY, EVEN THOUGH UNANIMITY WAS REQUIRED FOR AN INCREASE IN OWN RESOURCES. ON THE BRITISH PROBLEM ITSELF, EVERYTHING COULD BE DISCUSSED AND KOHL HAD BEEN QUITE RIGHT TO SAY ON 20 MAY THAT EVERYONE MUST MAKE AN EFFORT, BUT BRITISH SALAMI TACTICS COULD NOT BE ALLOWED TO SUCCEED. DUMAS SAID THAT DURING YOUR VISIT TO PARIS ON 25 MAY YOU HAD PROPOSED A MEETING WITH HIM IN THE NEAR FUTURE IN PARIS OR LONDON AND, WHILE NO ARRANGEMENTS HAD YET BEEN MADE, HE WAS ALWAYS AVAILABLE.

F C O PLEASE PASS SAVING ADDRESSEES.

FRETWELL

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No. 10 DOWNING STREET

Foreign and Commonwealth Office

London SW1A 2AH

24 May 1984

Prime Minister

To note

Dear John,

President Mitterrand's Ideas on Community Institutions

In an address to the European Parliament in Strasbourg this morning President Mitterrand gave some guarded support to the European Parliament's proposed Treaty on European Union. That part of his speech was summarised in the background note which we sent you earlier, for the Prime Minister's use in Question Time. I enclose a copy.

President Mitterrand is looking for initiatives for the European Council at Fontainebleau. There have been recent indications that the French may be planning to suggest more frequent recourse to majority voting. They have also referred to an idea, which they have canvassed in the past, for a small permanent Secretariat to prepare meetings of the European Council.

We have already suggested the line we might take on President Mitterrand's remarks to the European Parliament. For tactical reason, we doubt whether we should be too dismissive. We shall however point out in briefing that President Mitterrand stopped a long way short of any specific endorsement of the federalist proposals in the Parliament's draft Treaty and there is no likelihood of the French supporting the proposals substantially to enhance the power of the Parliament or to abolish use of the veto.

In a recent interview, President Mitterrand called for majority voting to be used for most decisions in the Community. M Dumas has made similar remarks (Paris telno 646, copy enclosed). French thinking on this score will probably not give us major problems. In a recent press briefing, M Dumas said that 'wherever possible, and wherever it is so laid down in the Treaty' the Council should return to the majority vote. This is perfectly consistent with our own policy. We are prepared to support use of the Treaty provisions on voting subject to a Member

/State

State continuing to be able to have a majority vote deferred where it considers its very important interests to be involved. It is not true to suggest that decision-making has in practice been much impaired by Member States invoking the Luxembourg compromise.

The idea of a small permanent Secretariat to prepare the work of the European Council will need very careful consideration. On the face of it, it is difficult to see what such a body could do that is not done already by the Council Secretariat, by Coreper or by the Foreign Affairs Council. Much would depend upon how formal and permanent a body the French have in mind.

In the time available Sir Geoffrey Howe has not seen this letter. I shall be showing him a copy as part of his briefing for this weekend's informal meeting of EC Foreign Ministers.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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FM PARIS 231630Z MAY 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 646 OF 23 MAY
INFO PRIORITY UKREP BRUSSELS, UKDEL STRASBOURG
INFO SAVING ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, ROME

EC: FRENCH VIEWS ON MAJORITY VOTING AND A EUROPEAN COUNCIL SECRETARIAT

SUMMARY

1. THERE ARE STRONG INDICATIONS THAT MITTERRAND WILL USE HIS SPEECH TO THE EUROPEAN PARLIAMENT ON 24 MAY TO ADVOCATE FRENCH VIEWS ON COMMUNITY INSTITUTIONS, INCLUDING GREATER USE OF MAJORITY VOTING, AND PERHAPS POLITICAL UNION.

DETAIL

2. IN AN INTERVIEW WITH REGIONAL NEWSPAPERS PUBLISHED YESTERDAY, MITTERRAND AGAIN CALLED FOR MAJORITY VOTING TO BE USED FOR TAKING MOST DECISIONS IN THE COMMUNITY. DUMAS ALSO MADE A PITCH FOR THIS IN A SPEECH YESTERDAY. NEITHER REFERENCE WAS SET IN THE CONTEXT OF THE BUDGET ISSUE, NOR WAS ANY LINK IMPLIED WITH DIFFERENCES WITH THE UK. THE FRENCH HAVE BEEN ADVOCATING A MOVE IN THIS DIRECTION AT LEAST SINCE THE START OF THE YEAR, MOST NOTABLY IN MITTERRAND'S SPEECH IN THE HAGUE IN FEBRUARY.

3. A MEMBER OF THE DUMAS CABINET COMMENTED TO US TODAY THAT THE GOVERNMENT WAS NOT CALLING IN QUESTION THE LUXEMBOURG COMPROMISE BUT SEEKING AN END TO ITS ABUSE. DECISION MAKING IN THE COUNCIL OF MINISTERS HAD TOO OFTEN BEEN PARALYSED BY GOVERNMENTS INVOKING THE COMPROMISE ON QUESTIONS WHICH DID NOT INVOLVE TRULY MAJOR NATIONAL INTEREST. IN CONSEQUENCE. TOO MANY DECISIONS THAT SHOULD BE SETTLED IN THE COUNCIL OF MINISTERS WERE BEING REFERRED UP TO THE EUROPEAN COUNCIL, CLUTTERING ITS AGENDA WITH MATTERS OF SECONDARY IMPORTANCE. IF IT WAS ALREADY DIFFICULT TO REACH DECISIONS IN THE COUNCIL OF MINISTERS IN A COMMUNITY OF 10, IT WOULD BECOME IMPOSSIBLE IN A COMMUNITY OF 12. MITTERRAND WOULD ARGUE THE CASE IN HIS SPEECH TO THE EUROPEAN PARLIAMENT ON 24 MAY.

4. IN SPEAKING TO THE BRITISH CONSERVATIVE ASSOCIATION IN FRANCE ON 21 MAY, CHIRAC ALSO ARGUED FOR INCREASED USE OF MAJORITY VOTING IN THE COUNCIL OF MINISTERS.

5. IN HIS LUNCHEON SPEECH YESTERDAY, DUMAS ALSO REFERRED TO THE IDEA OF A PERMANENT SECRETARIAT TO PREPARE EUROPEAN COUNCIL MEETINGS, SAYING IT SHOULD FORM PART OF THE SECRETARIAT OF THE COUNCIL OF MINISTERS, WORKING TO AN ASSISTANT SECRETARY GENERAL. IT SHOULD NOT BE COMPOSED OF SEPARATE REPRESENTATIVES OF THE 10 MEMBERS STATES: THERE WAS ROOM FOR DISCUSSION ABOUT THE ORGANISATION BUT HE PREFERRED SOMETHING FAIRLY LIGHT. CHIRAC ALSO ARGUED FOR A PERMANENT SECRETARIAT FOR THE EUROPEAN COUNCIL WHEN SPEAKING TO THE CONSERVATIVE ASSOCIATION.

6. THERE ARE WIDESPREAD RUMOURS IN PARIS THAT MITTERRAND WILL REVIVE THE IDEA OF A EUROPEAN POLITICAL UNION EITHER IN HIS STRASBOURG SPEECH OR AT FONTAINEBLEAU. SOME SUGGEST THAT HE HAS ALREADY DISCUSSED WITH KOHL THE IDEA OF A PRELIMINARY FRANCO-GERMAN POLITICAL UNION. WHEN I ASKED BIANCO, SECRETARY GENERAL OF THE ELYSEE, ABOUT THE SPEECH THIS MORNING HE WOULD SAY ONLY THAT MITTERRAND IS STILL WORKING ON THE TEXT. IT SEEMS LIKELY THAT HE AIMS TO SPRING ONE OR TWO SURPRISES.

7. MOREL (ELYSEE) HAS CONFIRMED TO US THAT MITTERRAND DISCUSSED INSTITUTIONAL ASPECTS OF THE COMMUNITY WHEN THEY MET ON 20 MAY. IN HIS PRESS INTERVIEW REFERRED TO ABOVE, HE REFERRED TO THE DECLARATION ON EUROPEAN UNION ADOPTED BY THE EUROPEAN PARLIAMENT, RECALLED THAT HE HAD COMMENDED AS GOING IN THE RIGHT DIRECTION, AND SAID THAT PARLIAMENT HAVING FULFILLED ITS ROLE IT WAS NOW TIME FOR GOVERNMENTS TO PLAY THEIR PART.

8. IN THE SAME INTERVIEW, MITTERRAND DECLARED HIMSELF TO BE CAUTIOUSLY IN FAVOUR OF A MULTI-SPEED EUROPE, GIVING THE EMS, ARIANE AND AIRBUS AS EXAMPLES OF ITS APPLICATION, BUT INSISTING THAT THE TREATY OF ROME SHOULD CONTINUE TO BE RESPECTED AS THE ESSENTIAL FOUNDATION OF THE COMMUNITY.

FCO PASS SAVING ADDRESSEES

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PRIME MINISTER'S QUESTION TIME: 24 MAY

PRESIDENT MITTERRAND'S SPEECH ON EUROPEAN UNION

Line to Take

I have seen reports of President Mitterrand's speech. The Community as a whole has already said that it will review the need for a new treaty in 1988. We shall look carefully at what President Mitterrand has said. He made clear that the existing treaties should not be replaced. We believe those treaties already provide plenty of scope for the further development of the Community. Our first task is to complete the negotiations initiated at Stuttgart last year.

BACKGROUND

In a speech to the European Parliament this morning (24 May), President Mitterrand referred to the Parliament's recent adoption of a draft treaty of European union (the Spinelli proposal). President Mitterrand said that those, like himself, who wanted this development would examine the draft treaty carefully. Each situation required a new treaty. The new treaty should not replace the existing ones but should serve as an extension. For an undertaking on this scale, France was ready to help. "France is prepared to examine and defend this approach". President Mitterrand suggested that preparatory talks be held among the Member States. The Stuttgart Declaration should serve as a basis as well as the draft treaty proposed by the Parliament.

Under the Solemn Declaration (Genscher/Colombo) signed in June 1983, the Community is already committed to examining the need for a new treaty within five years of the Declaration's signature, ie by June 1988. We have consistently maintained that, while the European Parliament is entitled to express its views, the Community should consider implementing the existing Treaties before we start drafting a new one.

For tactical reasons we do not wish to dismiss President Mitterrand's proposal. But we will need to make clear that the Community's first task is to complete the undertakings it made at Stuttgart.

The French are also believed to be thinking about an initiative to promote greater use of majority voting within the Council of Ministers. We have always said that we favour majority voting where the Treaties so provide, subject to a Member State continuing to be able to have a majority vote deferred where it considers its very important interests to be involved. We would not accept extension of voting to new areas where unanimity is at present required, but this does not appear to be what the French have in mind.

cSK

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

RESTRICTED

BB 24/5
p.a.

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street
London SW1A 2AL

24 May 1984

Dear Geoffrey

EC BUDGET NEGOTIATIONS

I refer to your minute (PM/84/82) to the Prime Minister copied to Cabinet colleagues.

I think there is a slight misphrasing in paragraph 8 of your draft. It is suggested there that Ministers from many Departments should say to their colleagues in other member states that "failure to agree", which in the context must mean to a satisfactory system of budgetary refunds for the United Kingdom, "will therefore condemn the Community to run out of money in the autumn". The inference is that either a solution on the budget would allow for an increase in own resources in 1984, which is technically impossible, or that we would in those circumstances agree to some other form of financing like the loan recently advocated by the Commission.

I am sure that you would not wish Ministers to make such a concession at this stage and I would therefore suggest that the words "therefore condemn the Community to run out of money in the autumn and will" be deleted from the final sentence of paragraph 8.

I am copying this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

Yours

Michael

MICHAEL JOPLING

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Prime Minister.

Worth noting.

A.J.C. 23/5.

Qz.03728

MR COLES

REFORM OF COMMUNITY FINANCES: MEETING BETWEEN HERR KOHL AND MONSIEUR MITTERRAND ON 20 MAY

I think that the Prime Minister should see the attached telegram No. 512 from Bonn. We should not put too much weight on this report but it is significant that Herr Kohl's statement that all sides must move in order to reach a settlement was particularly drawn to the attention of the media. I think that this is the first time since the Brussels European Council that a Head of Government of any of the Nine member states has deliberately stated in public that the Nine must move to reach a settlement.

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

D F Williamson

D F WILLIAMSON

23 May 1984

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FCO

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SIR G TICKELL
~~[illegible]~~
MR RENWICK.

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MR G STAPLETON
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MR J B UNWIN
~~MISS J E COURT~~
MR J G LITTLER
~~[illegible]~~
MR J E MORTIMER
MR G W. HOPKINSON
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MAFF

PERMANENT SECRETARY
MR ANDREWS
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22 MAY 1984

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TO IMMEDIATE FCO
TELEGRAM NUMBER 512 OF 22 MAY
INFO IMMEDIATE UKREP BRUSSELS PARIS
INFO PRIORITY ATHENS EMBASSY BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG ROME THE HAGUE UKDEL NATO

THE EC BUDGET: KOHL/MITTERRAND MEETING, SAARBRUECKEN, 20 MAY

SUMMARY

1. GERMAN OFFICIALS VERY CAGEY. BUT INDICATIONS THAT PARAMETERS FOR A BUDGET SETTLEMENT WERE DISCUSSED AND VARIOUS IDEAS TO BE EXAMINED BY FRENCH AND GERMAN OFFICIALS. GERMANS DO NOT THINK THAT THE FRENCH ARE UNWILLING TO ENGAGE IN SECRET NEGOTIATION BEFORE THE EUROPEAN ELECTIONS.

DETAIL

2. STABREIT, AUS IN THE FEDERAL CHANCELLERY, WHO WAS PRESENT AT THE KOHL/MITTERRAND MEETING, SAID WHEN WE APPROACHED HIM TODAY THAT THE TWO HEADS OF GOVERNMENT HAD BEEN TALKING PRIVATELY AND IN STRICT CONFIDENCE AND THAT HE HAD NO AUTHORITY TO TELL US WHAT HAD PASSED. IN REPLY TO QUESTIONS HE GAVE THE FOLLOWING INFORMATION.

3. THE MEETING LASTED ONLY TWO HOURS, INCLUDING INTERPRETATION. NO SPECIFIC POINTS WERE AGREED. BUT VARIOUS IDEAS WORTH STUDYING WERE MENTIONED, AND FRENCH AND GERMAN OFFICIALS WOULD NOW EXAMINE THESE. PARAMETERS FOR A BUDGET ARRANGEMENT, RATHER THAN FIGURES, WERE DISCUSSED. IN THE GERMAN VIEW, IT WAS ESSENTIAL THAT A SOLUTION BE PREPARED BY SECRET DIPLOMACY BEFORE THE EUROPEAN ELECTIONS, SINCE OTHERWISE SUCCESS WOULD BE UNLIKELY AT FONTAINEBLEU.
THE GERMANS DID NOT THINK THAT THE FRENCH DISAGREED WITH THIS. THEY

THE GERMANS DID NOT THINK THAT THE FRENCH DISAGREED WITH THIS. THEY EXPECTED THAT THE FRENCH WOULD BE CONTACTING THE BRITISH AGAIN BEFORE LONG.

4. ASKED ABOUT A REMARK ATTRIBUTED IN THE MEDIA TO KOHL AFTER HIS MEETING WITH MITTERRAND, TO THE EFFECT THAT PROGRESS COULD ONLY BE ACHIEVED IF ''ALL SIDES MOVE TOWARDS EACH OTHER'', STABREIT CONFIRMED THAT THIS WAS A DELIBERATE FORMULATION WHICH THE CHANCELLOR'S PRESS SPOKESMAN HAD PARTICULARLY DRAWN TO THE ATTENTION OF THE MEDIA. STABREIT BELIEVED, ON THE BASIS OF THE KOHL/MITTERRAND MEETING, THAT MITTERRAND WOULD AGREE WITH IT. MITTERRAND VERY MUCH WANTED A SUCCESS AT FONTAINEBLEU TO CROWN THE FRENCH PRESIDENCY AND AGREED WITH KOHL THAT TOO MUCH POLITICAL CAPITAL AND ENERGY HAD RECENTLY BEEN SPENT ON THE BUDGET PROBLEM. STABREIT IMPLIED THAT KOHL WOULD BE WILLING IN PRINCIPLE TO CONTRIBUTE TO THE COST OF A FURTHER CONCESSION TO BRITAIN, ASSUMING THAT BRITAIN ALSO MADE CONCESSIONS, BUT HE ADDED THAT CURRENT PRESSURES ON THE FEDERAL BUDGET GAVE THE CHANCELLOR VERY LITTLE SCOPE. HE MENTIONED IN PARTICULAR THE POSSIBILITY OF AN INCREASE IN THE GERMAN CONTRIBUTION TO NATO INFRASTRUCTURE AND THE POSSIBLE COSTS TO THE BUDGET OF THE CURRENT STRIKES IN GERMAN INDUSTRY.

5. IN TODAY'S PRESS THE MEETING IS BRIEFLY BUT POSITIVELY REPORTED UNDER HEADLINES SUCH AS ''KOHL AND MITTERRAND OPTIMISTIC'' KOHL'S FORMULATION OF YESTERDAY (PARA 4 ABOVE) IS REPEATED AND ACCOMPAN-
~~XXXXXXXXXXXXX~~TAM
IED BY A QUOTATION TO THE EFFECT THAT HE BELIEVES THERE IS A GOOD CHANCE THAT SO THINGS WILL TURN OUT. MITTERRAND IS SAID TO HAVE ASSESSED THE MEETING POSITIVELY, TO HAVE OBSERVED THAT COMMUNITY DIFFICULTIES WERE FREQUENTLY SOLVED THROUGH FRANCO/GERMAN FRIENDSHIP, THAT ON ALL THE MAIN POINTS DISCUSSED THERE WAS UNITY OF VIEW BETWEEN THE TWO MEN AND THAT THE RESULTS OF SAARBRUECKEN WOULD NOW HAVE TO BE DISCUSSED WITH THE OTHER PARTNERS. NO CONCRETE SOLUTION TO THE BRITISH PROBLEM WAS HOWEVER MADE. IN ANSWER TO A QUESTION MITTERRAND IS QUOTED, IN THE CONTEXT OF THE FINANCE PROBLEM, AS SAYING THAT THE QUESTION OF AN INCREASE IN THE GERMAN CONTRIBUTION WAS NOT DISCUSSED BUT DELPHICY, THAT THE GERMAN CONTRIBUTION WOULD NOT BE A ''STUMBLING BLOCK''.

6. THE NEXT FRANCO/GERMAN CONSULTATIONS ARE ON 28 MAY.

FCO PLEASE ADVANCE TO: WILLIAMSON, DURIE, STAPLETON - CAB OFF
TICKELL, RENWICK, FAIRWEATHER - FCO
UNWIN, FITCHEW, MORTIMER - TSY
ANDREWS, MRS ATTRIDGE - MAFF

TAYLOR

NNNN

CCN: PLEASE AMEND PARA 5 LINE 14 TO READ ''DISCUSSED BUT DELPHICLY''

Ref.A084/1545

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will refer to the opening of the European Parliamentary election campaign both in the United Kingdom and in other member states. There will be no movement by the French Presidency on the reform of the Community's financing and the United Kingdom budget refunds while the election campaign is in progress. The latest French opinion polls (21 per cent Socialist, 13 per cent Communist) underline the French Government's difficulty in this election. German sources, however, have not ruled out secret contacts between France, Germany and the United Kingdom on budget refunds during this period.

2. The Foreign and Commonwealth Secretary may also refer to the meeting between the German Chancellor, Herr Kohl, and the French President, Monsieur Mitterrand, on 20 May. They discussed parameters for a budget settlement. Herr Kohl is said to have taken the view that it was essential that a solution be prepared before the European Council, since otherwise success would be unlikely at Fontainebleau. After the meeting Chancellor Kohl's press spokesman particularly drew the attention of the media to the Chancellor's statement that progress could be achieved only if "all sides moved towards each other". This is the first time in the present stage of negotiations that any of the Nine has publicly expressed a willingness to move towards the United Kingdom's position.

3. The Chancellor of the Exchequer may report on the Commission's expected presentation to the European Parliament today of the Community's preliminary draft budget for 1985. This preliminary draft budget will exceed the 1 per cent VAT ceiling by about 2 billion ecu and be accompanied by a proposal for a legal base for raising extra revenue to balance the budget. This does not change the real world one jot: the ceiling on own resources cannot be raised without United Kingdom agreement. The United Kingdom response should be:

- this is a proposal by the Commission for a preliminary draft budget for 1985. It is not the 1985 budget;
- the Commission is required to respect the ceiling on the Community's own resources which has Treaty force and can only be changed by unanimity. In our view the Commission should revise its proposal within the ceiling on the Community's own resources;
- the Council of Ministers in any event is equally bound by the Treaty and the Acts adopted in accordance with it. If the Commission does not revise its proposal, the Council will have to reduce it.

4. The Chancellor of the Exchequer may also report that the question of the Community's credit rating has been settled satisfactorily. All member states and the Commission have agreed that the Commission can only overdraw unconditionally to meet temporarily a default by a borrower (normally a company or individual person) under an approved Community loan. Otherwise the Commission's initiative on overdrafts is absolutely limited by the obligation to make payments only for amounts inscribed in the budget, which must itself respect the ceiling on the Community's financial resources. This has effectively cut off any risk that member states might have been tempted to use overdrawing by the Commission as a means of by-passing the ceiling on the Community finances.

5. The Secretary of State for Energy will report on the Energy Council on 22 May at which the United Kingdom was represented by the Minister of State (Mr Buchanan Smith). The United Kingdom obtained agreement on coal social measures of 60 million ecu (about £35.4 million) which was one of our objectives. As Cabinet noted when it last discussed this on 8 March 1984

FLAG A (CC(84) 9th Conclusions, Minute 4), the United Kingdom is expected to be the major beneficiary of these measures. The Council also agreed 50 million ecu for energy demonstration projects on coal liquefaction from which we shall benefit. Work is to continue on proposals for investment aid for economic coal production, in which the United Kingdom has a major interest, and the Commission and Presidency gave a commitment to work for decisions this year.

6. The Fish Council meets on 24 May, and there are informal meetings of Foreign Ministers on 25-27 May and of Agriculture Ministers on 28-30 May. The Education and Finance Councils meet on 4 June, the Agriculture Council on 4-5 June, the Development and Consumer Affairs Councils on 5 June and the Social Affairs Council on 7 June.

RA

Approved by
ROBERT ARMSTRONG
and signed in his absence.

23 May 1984

RESTRICTED

cPC

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

W.B.P.R.

FOREIGN AND COMMONWEALTH SECRETARY

EUROPEAN COMMUNITY BUDGET NEGOTIATIONS

Thank you for copying to me your minute of 18 May to the Prime Minister on the present state of the budget negotiations and the line that colleagues might take in forthcoming contacts with their Community opposite numbers.

2. I am content with the general approach on the budget imbalances issue, in particular your reference to the major concessions we have already made and the little room for manoeuvre now left to us. I think, however, that there are a few other points that colleagues might also care to bear in mind and raise if suitable opportunities arise.

3. First, the other major element in the negotiation is budgetary discipline, both on agricultural and other Community spending. As the Prime Minister reminded the House after the March European Council, effective control of agricultural and other spending is, together with a fair sharing of the budgetary burden, a prior condition of any increase in the Community's financial resources. It would be helpful, therefore, if colleagues could also remind their opposite numbers of the importance we attach to this, while avoiding any suggestion that it is an alternative to an acceptable budgetary imbalances deal. Without effective discipline a new imbalances system would be subject to great strain and we should still be at risk to an expanding budget.

4. Second, there is still the outstanding issue of our 1983 refunds, which remain blocked by the French and Italians. It is intolerable that we should continue to be denied these refunds, which were agreed by Heads of Government at Stuttgart last June, and early release must also form part of a settlement at Fontainebleau on 25-26 June.

5. Third, there is the question of the Commission's proposal for a 2.3 ecu loan from member States to cover the 1984 budget overrun. We have so far tended to take the line in Brussels that it is too early in the year to consider this, and that savings must be looked for. I suggest the time has come to make it clearer in private and in public that there can be no question of our considering this while the major budgetary imbalances and discipline issues remain unresolved.

6. I am copying this minute to the Prime Minister, other Cabinet colleagues, and to Sir Robert Armstrong.

NL.

N.L.
23 May 1984

Anne Pol
Bridget Rolle

VC

23 May 1984

Community Cfedit Rating

Thank you for your letter of 22 May, the contents of which the Prime Minister has noted.

AJC

Miss J.C. Simpson,
H.M. Treasury.

NR

2.47

SECRET

2pps.

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

Prime Minister.

22 May 1984

To note.

AJC 22/5.

A J Coles Esq
10 Downing Street
LONDON
SW1

Dear John,

COMMUNITY CREDIT RATING

During Cabinet last Thursday, the Chancellor reported to colleagues that Standard and Poor had been questioning the Community's credit rating in New York and that the form of reply proposed by the Commission was not satisfactory, especially in that it implied that the Commission had unlimited authority to overdraw funds under Article 12.2 of Regulation 2891/77. It was agreed that, in order to protect the UK's position in relation to the ceiling on the Community's own resources it should be made clear that the Commission's power to overdraw in excess of the 1 per cent ceiling was confined to honouring the Community's loan obligations.

The Prime Minister will wish to know that we have gained our essential points and have been able to ensure that our negotiating position in the main budget negotiations is entirely protected, despite the little support we received from other states.

We have obtained an agreed entry in the minutes which makes clear that the Commission's ability to overdraw its Accounts under Article 12(2) of Regulation 2891/77 beyond the ceiling on the Community's own resources is restricted to the extreme case of a loan default. Moreover the letter to Standard and Poor has also incorporated an appropriate reference. The Commission now have no grounds for interpreting Article 12(2) as giving any general or unlimited power to draw on funds beyond the 1 per cent VAT ceiling. Its powers under that Article have been appropriately circumscribed.

The Chancellor believes that this outcome has safeguarded our position fully.

I am copying this to Roger Bone at the FCO.

Yours ever,

Judith Simpson

MISS J C SIMPSON
Private Secretary

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FCS/84/150

Prime Minister

A.J.C. 22/5.

SECRETARY OF STATE FOR TRANSPORT

Transport Council: 10 May

1. Thank you for your letter of 14 May.

2. Since I was not at Cabinet on Thursday, I did not have an opportunity then to congratulate you on the outcome of the Transport Council. I was glad to see the outcome on transport infrastructure and on lorry quotas.

3. You have also got very good publicity for your initiative on air transport liberalisation. We are going to have an uphill struggle in the Council but, as this week's Economist pointed out, consumer pressure in Europe may come to our aid. I am particularly glad that we have been able to press ahead with one of our key new policy objectives. It shows that, while others tend to talk in vague and general terms about the future of Europe, we actually come up with proposals of real benefit to Europe's citizens. I was able to emphasise this point at Monday's Press Conference to launch the manifesto. I hope we can continue to do so over the next few weeks.

4. I am copying this minute to the Prime Minister.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
22 May 1984

File

OD&S

21 May 1984

THE BUDGET NEGOTIATIONS

The Prime Minister has noted the contents of the Foreign and Commonwealth Secretary's minute of 18 May in which Sir Geoffrey Howe brings Cabinet colleagues up-to-date on the Budget negotiations within the European Community and suggests points which they should make in bilateral contacts with our European partners in the weeks ahead.

Roger Bone, Esq.,
Foreign and Commonwealth Office.

NR

RESTRICTED

Treasury Chambers, Parliament Street, SWIP 3AG

21/5

Malcolm Rifkind Esq MP
Minister of State
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

21 May 1984

Dear Minister of State,

PRIVATE MEMBER'S MOTION, MONDAY 21 MAY: FUTURE OF THE EUROPEAN COMMUNITY

I am writing in reply to your letter of 17 May to John Biffen, which you kindly copied to John Moore.

I agree that we can live with the terms of Jim Spicer's motion and need not seek to amend it.

I would, however, like to suggest a slightly different line to take from that contained in the fourth paragraph of your letter.

Given the line which the French Government are now taking - viz that they are in no hurry to resume negotiations on budgetary imbalances before Fontainbleau and that it is up to the UK to make the first move - I think it would be a mistake for us to seem to be pressing publicly for the immediate resumption of negotiations. I therefore do not think we should talk in terms of a settlement before the European elections, which is now quite clearly out of the question. I would suggest that the right line to take is that the Government is ready to resume negotiations on this issue as soon as our partners are ready; that we certainly expect the issues to be high on the agenda of the Fontainbleau European Council; that we remain determined to get an equitable settlement; and that this will certainly require a significant move by our partners from the position they have taken up until now. If pressed as to our own position, you might say that we are prepared to negotiate, but have little room for manoeuvre.

I am sending copies of this letter to the recipients of yours.

Yours sincerely
Adam Ellis

for IAN STEWART
Approved by the Economic Secretary
and signed in his absence.

PRIME MINISTER

Duty Clerk
LMS.

PM/84/82

PRIME MINISTER

The Budget Negotiations

1. I thought it would be useful to write briefly to bring colleagues up to date on the budget negotiations within the European Community.

2. The negotiations are not making much headway. Our partners are insisting that they will not go beyond the size of the notional relief of 1000 mecu proposed at the Brussels European Council in late March and that it is up to the United Kingdom to accept this. This ignores the fact that for the Nine to move involves much less of a sacrifice for each of them separately than it does for us alone; and that we shall remain the second largest contributor to the budget for the foreseeable future even under our own proposals. Clearly there cannot be an agreement on this "take it or leave it" basis and it would be valuable if those of our colleagues who have an opportunity to do so could speak to their opposite numbers over the next weeks to reinforce the line you and I have been taking in bilateral contacts. I enclose a list we have drawn up of when such opportunities might occur. I suggest that they should take the following line.

3. Despite the gloom, considerable progress has been made in the post-Stuttgart negotiations. The provisionally-agreed Presidency conclusions from the Brussels European Council show that there is a large measure of consensus on the way in which the Community should be going.

/4.

4. The United Kingdom is ready to work for a solution at the Fontainebleau European Council on 25/26 June on the one remaining major issue - the size of the notional refund to the United Kingdom which will determine how the system works from 1985 onwards.

5. We have made a number of major concessions in the negotiations on both the nature of the budgetary system and the figures, and are ready to work with our partners to reach an agreement in the context of a final settlement. The difference between what is on offer by our partners (1000 mecu notional refund for 1983 in a Community of 12) compared with the figure we put forward at the March European Council (1250 mecu) is not so large as to rule out possibility of agreement. We have indicated that we have a little - though only a little - room for maneouvre. But the Community as a whole must make an effort. The cost of compromise for each of the Nine separately will not be great since the burden will be divided between them.

6. Agreement must be on the basis that after one more year of ad hoc refunds of 1000 mecu for 1984, the budgetary system as set out in the Presidency proposals from the European Council should come into effect. We would not be prepared to agree to further ad hoc refunds and any suggestions that the system is no longer on the negotiating table should be dismissed as meaning that no agreement would then be possible.

7. We are also suggesting that in the interim while we are waiting for agreement, the Community should get on with detailed work elaborating the provisional agreements reached at the Brussels European Council.

/8.

8. Our position is a very reasonable one. But it must be clear that if there is no agreement at the European Council we would not agree to any increase in own resources. That increase requires the unanimous agreement of all ten Member States. Failure to agree will therefore condemn the Community to run out of money in the autumn and will delay the relaunch of the Community to which we, like our partners, are firmly committed.

9. John Biffen may like to have these points in mind if he is tackled by the lobby on the Government's approach at the present phase of the negotiations.

10. I am copying this minute to all Cabinet colleagues and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
18 May 1984

MINISTERIAL CONTACT WITH COMMUNITY COLLEAGUES BEFORE THE FONTAINEBLEAU SUMMIT ON 25/26 JUNE

PRIME MINISTER

Multilaterals

8/9 June	London	Western Economic Summit

Bilaterals

8 June	London	President Mitterrand
9 June	London	Chancellor Kohl
9 June	London	S Craxi
9 June	London	M Thorn

FOREIGN AND COMMONWEALTH SECRETARY

Multilaterals

14/15 May	Brussels	Foreign Affairs Council
17/18 May	Paris	OECD Ministerial
24 May	Paris	WEU Ministerial
25/27 May	Salon de Provence	Informal Foreign Ministers' Meeting
29/30/31 May	Washington	North Atlantic Council Ministerial
8/9 June	London	Western Economic Summit
18/19 June	Luxembourg	Foreign Affairs Council

Bilaterals

13 May	Brussels	M Thorn
14 May	Brussels	M Dumas
25 May	Paris	Speech to Franco-British Chamber of Commerce
8/9 June	London	Possible bilaterals yet to be arranged in the margins of the Economic Summit.
21/24June	London	Herr Moellemann, FRG Minister of State for Foreign Affairs

MR RIFKIND

Multilaterals

23 May	Brussels	Economic and Social Committee

Bilaterals

23 May	Brussels	Mr de Keersmaeker, State Secretary for European Affairs and Agricultur

LADY YOUNG

Multilaterals

19 June	Paris	WEU Assembly

MINISTER OF AGRICULTURE

Multilaterals

28/30 May	Angers	Informal meeting of Agriculture Ministers
18/19 June	Luxembourg	Agriculture Council

MINISTER OF STATE FOR AGRICULTURE (MR MACGREGOR)

Multilaterals

24 May	Brussels	Fish Council

DEFENCE SECRETARY

Multilaterals

16/17 May	Brussels	NATO Defence Planning Committee

EDUCATION SECRETARY

Multilaterals

21 May	Brussels	Education Council

EMPLOYMENT SECRETARY

Multilaterals

7 June	Luxembourg	Social Affairs Council

ENERGY MINISTER OF STATE

Multilaterals

22 May	Brussels	Energy Council

HOME SECRETARY

Multilaterals

25 May	Madrid	European Ministers of Justice Conference

Bilaterals

4/5 June	London	Herr Zimmermann, FRG Minister of the Interior

TRADE AND INDUSTRY SECRETARY

Bilaterals

13 June (possible)	Paris	M Fabius, French Minister of Industry and Research

TRADE AND INDUSTRY MINISTERS OF STATE

Multilaterals

29 May	Brussels	Research Council
5 June	Luxembourg	Consumer Affairs Council

TREASURY (CHANCELLOR)

Multilaterals

12/13 May	Paris	Informal Finance Council
4 June	Luxembourg	Finance Council

O/C

cc P.C

FCS/84/143

MINISTER OF STATE FOR INDUSTRY

A.J.C. 18/5

J.a.

1. Thank you for your letter of 4 May. I have also seen Peter Rees' letter to you of 10 May.

2. As you will know, an acceptable compromise was reached on the outstanding issues at the 14 May Foreign Affairs Council and the way is now clear for agreement of a new Regulation in June.

3. On quota ranges we achieved our minimum requirement (ie a UK guaranteed minimum of 21.42%). I pressed hard for a general reduction of the upper ranges but received no support. On rates of grant the compromise of a 50% maximum with 55% for exceptional circumstances is satisfactory, given that Community Programmes are to be included within this ceiling. This, together with the other checks we negotiated on Community Programmes (ie voting procedures and a 15% limit) means that we have achieved our objective of adequate control of these Programmes. We also dealt firmly with the German attempt to add urban renewal to the negative infrastructure list, conceding only the addition of social housing.

IMPs

4. As suggested by Peter Rees, in agreeing these points I made it clear that this was on the basis that non-agricultural IMPs were included and the IMPs would be financed from the structural funds. Our efforts to have these incorporated in the Council decision were not successful. But I believe that the Presidency declaration, made at our insistence, that work on IMPs would continue on the basis of the provisional conclusions of the March European Council, meets our requirements. It was clear

/that

that the other Northern Member States share our view of the relationship between IMPs and the structural funds. They will continue to resist free-standing IMPs, but will be ready to agree the ERDF on the basis of the Presidency text.

5. I am copying this letter to members of OD(E) and to Jim Prior, George Younger, Nicholas Edwards, Patrick Jenkin, Tom King, Lord Bellwin and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

18 ~~June~~, 1984
May.

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

18 May, 1984.

European Negotiations

Thank you for your letter of 17 May. As I told you on the telephone this morning, the Prime Minister has approved the draft telegram of instructions to Sir Jock Taylor.

I am sending a copy of this letter to David Peretz (HM Treasury).

A. J. COLES

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

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister.

Agree that Sir Jock Taylor should speak to Chancellor Kohl's office tomorrow in terms of the attached telegram?

A.J.C. 17/5

Agreed

17 May, 1984

Dear John,

European Negotiations

President Mitterrand is due to see Chancellor Kohl at Sarrebruck on Sunday 20 May as part of the tour of European capitals he is making before the European Council in Fontainebleau.

Sir Geoffrey Howe feels that we need to make sure that our position is clearly understood by Kohl personally before he sees Mitterrand; and that, if the Prime Minister agrees, it would be most effective for Sir Jock Taylor to be instructed to convey an oral message from the Prime Minister. This must go to Kohl personally, and not to Genscher, who is unlikely to play a helpful role. I attach a draft telegram. As you will see, this would be given an extremely limited distribution.

In order to give Sir Jock Taylor time to act, the telegram should arrive, if possible, no later than Friday morning (18 May).

I am copying this letter, with the enclosure, to David Peretz in the Treasury.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

OUT TELEGRAM

Classification and Caveats	Precedence/Deskby
CONFIDENTIAL DEDIP	IMMEDIATE

ZCZC ZCZC

GRS

CLASS CONFIDENTIAL

CAVEATS DEDIP

DESKBY

FM FCO FM FCO MAY 84

PRE/ADD TO IMMEDIATE BONN

TEL NO TELEGRAM NUMBER

INFO IMMEDIATE PARIS (PERSONAL FOR SIR J FRETWELL), UKREP BRUSSELS (PERSONAL FOR SIR M BUTLER)

EUROPEAN NEGOTIATONS

Following personal for Sir J Taylor

1. President Mitterrand is due to meet Chancellor Kohl on 20 May. The current negotiations on the Community budget will certainly be discussed. Recent contact with the French, including my meeting with M. Dumas in the margins of the Foreign Affairs Council on 14 May, have yielded little progress. It seems clear that the French are unlikely to make any move until the European Council at Fontainebleau. Before he sees Mitterrand we need to ensure that our position is properly understood by Kohl personally.

/// 2. I should be grateful if you would deliver the following
// oral message from the Prime Minister to Teltschik in Kohl's
/ office. In doing so you should make absolutely clear that this message is intended for Kohl only and not for others in the

NNNN ends telegram	BLANK	Catchword: German

File number	
Dept	Private Office
Drafted by (Block capitals)	ROBER BONE
Telephone number	
Authorised for despatch	
Comcen reference	
Time of despatch	

Distribution
Limited
PS
PS/Mr Rifkind
Sir J Bullard
Sir C Tickell
Mr Renwick
ECD(I)
Mr Williamson, Cabinet Office
ps/No 10

XY 48

Classification and Caveats		Page
CONFIDENTIAL DEDIP	IMMEDIATE	2

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German Government. For your own information we do not want Genscher involved in any way in these exchanges: his main concern at the moment seems to be to keep in step with the French.

3. You should tell Kohl on the Prime Minister's behalf that her position in the negotiations remains as she described it to Chancellor Kohl at Chequers on 2 May. The British Government will be prepared to make a final move in order to clinch an agreement on budget imbalances and, therefore, open the way for new own resources, but only in order to clinch an agreement. We shall not be able to move to a position from which further bargaining would take place. This will require movement from all the other member states if agreement is to be achieved.

4. You should add that, following the Prime Minister's meeting with President Mitterrand we have had further contacts with the French Presidency. These have not advanced matters. It is our impression that the French do not wish to bring matters to a conclusion before Fontainebleau. That is all right; but if the Community is not to be left in disarray, it will be very important to do so then. We shall be willing to play our part in trying to achieve this, and believe that the Chancellor takes a similar view.

5. Finally, you should say that the Prime Minister will wish to have a personal word with Chancellor Kohl about this when they meet in London on 9 June.

HOWE

NNNN

/// // /

NNNN ends telegram	BLANK	Catchword

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(2)

cc PG ✓

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

Prime Minister.

To be aware.

A.J.C. 16/5

16 May 1984

A J Coles Esq
Private Secretary
No 10 Downing Street

Dear John,

COMMUNITY CREDIT RATING ON NEW YORK MARKETS

The Prime Minister will wish to know that a problem has arisen over the Community's credit rating and that we are currently engaged in a difficult negotiation with the Commission about the response to be given to the New York Credit Rating Agency, Standard and Poor's (S & P).

In brief, S & P have addressed a number of specific questions about the Community's ability to meet its guarantee obligations. In the absence of an early and satisfactory reply, there is a risk that S & P will down-grade the Community's present triple A ranking.

We have made clear our anxiety to maintain the Community's credit rating at the highest level and to co-operate in ensuring this. We see serious difficulties, however, in the Commission's proposed reply, to which they have sought agreement by all member states at short notice and without prior consultation (which would have been possible since the Commission have been in discussion with S & P for some time).

In essence, the Commission are seeking to assert unconditionally that the "overdraft" facility provided under Article 12(2) of Regulation 2891/77 could be used to call up sums required to meet guarantee obligations in excess of the 1 per cent VAT ceiling. We cannot accept this. To do so would clearly undermine our resistance to any increase in the 1 per cent VAT ceiling and to the special loans for which the Commission have asked this year.

Ng ✓

We have, therefore, suggested amendments to the Commission's reply to relate its terms to the overall budgetary constraint. At the same time, to meet S & P's underlying concern, we have undertaken to subscribe to an additional statement to the effect

If we agree this we have cut the ground for negotiating from our own feet

CHANCELLOR OF THE EXCHEQUER

that in the unlikely event of the Article 12(2) arrangements not being sufficient to meet a Community guarantee obligation, member states would take the appropriate steps to meet any such obligation. We are also proposing that urgent consideration should be given to the precise action that would be necessary in such circumstances; some limited amendment - that does not prejudice the 1 per cent ceiling - to the existing Regulation may be necessary.

Although the Commission are taking the high-handed view that no amendments can be accepted and that only the UK is causing problems, we have established that both the German (fully) and Dutch (in large measure) Finance Ministries share our concern. At our request, they have instructed their representatives in Brussels to concert their position with us. We hope, therefore, that, with their support, we shall be able to secure amendments to the Commission's reply on the lines we have proposed. If not, we shall have to find a way of disassociating ourselves from the Commission's reply. A fall-back possibility would be a strong entry - with as much support as we can muster - in the Council minutes, and we are giving contingency thought to this.

I will keep you in touch with further developments.

I am copying this letter to Roger Bone in the FCO.

Yours ever,

Judith Simpson

Private Secretary

Ref. A084/1480

PRIME MINISTER

Cabinet: Community Affairs

In the absence of the Foreign and Commonwealth Secretary, the Minister of State, Foreign and Commonwealth Office (Baroness Young) will report on the Foreign Affairs Council on 14-15 May. Agreement was reached on all major outstanding issues in the revision of the Regional Development Fund which is expected to be adopted at the June Foreign Affairs Council. Under the present regulation the United Kingdom has an effective quota share of 22.6 per cent. Under the new regulation quotas will be expressed as ranges and the United Kingdom range will be 21.42 per cent to 28.56 per cent. If our projects are good, the United Kingdom should do slightly better under the new regulation. The United Kingdom successfully resisted German attempts to strike out urban renewal from the eligible categories, since this is a category from which we benefit. We also obtained a declaration by the Presidency referring to the provisional conclusions of the last European Council: this will make it easier for us to resist Greek and Italian claims (for example, at the next European Council) for additional finance for integrated Mediterranean programmes. The Council also reached agreement on the Community position on a series of negotiating points with Portugal (application of VAT, fisheries etc). There was discussion of the date for the already agreed changes in the fruit and vegetables regime as preparation for Spanish accession. The Council decided to implement these changes from 1 June. The French, who wanted this for European electoral reasons, were pleased that the United Kingdom accepted this date (although in reality we only did so because we knew that the Germans were going to capitulate and that we could not therefore stop adoption). There was no discussion in the Council of the reform of the Community's financing and United Kingdom refunds, as the Foreign and Commonwealth Secretary judged that this would be counter-productive, but there were further bilateral contacts. On the 1984 budget overspending the Council invited the Commission and

COREPER to undertake more work on the size of the overrun and to examine the scope for savings. This is in line with our approach. The Commission linked this issue to other budgetary matters for consideration at the European Council in June. The Council agreed upon a declaration on Afghanistan, on which the United Kingdom wished to continue to direct public attention.

2. The Minister of State, Foreign and Commonwealth Office, may also report on the Foreign and Commonwealth Secretary's meetings on the reform of the Community's financing and United Kingdom refunds with the President of the Commission, Monsieur Thorn, on 13 May and with the French Minister responsible for European affairs, Monsieur Dumas, on 14 May. The meeting with Monsieur Thorn produced little of substance that was new; he was concerned about the hard line being taken by the French but prepared to keep Monsieur Davignon's ideas alive behind the scenes. The trend of Monsieur Dumas's comments was pessimistic. He did not see a settlement being reached before the European election campaign and feared that member states might have little incentive to reach an agreement on the present system afterwards. He even mentioned that if there were no agreement on a system at Fontainebleau there might be agreement on a refund for 1984 of 1,000 million ecu, with all other problems being left over. The Foreign and Commonwealth Secretary emphasised that the Presidency should not look for solutions other than an agreement on the whole package.

3. The Chancellor of the Exchequer may report on the informal Finance Ministers' meeting on 12-13 May which discussed the preparations for the forthcoming meeting of the Group of Ten. An official group will plan the system of budget discipline. Ministers also agreed in principle to increase the Community loan mechanism from 6 to 8 billion ecu but no formal decision is expected until the June Finance Council.

4. The Secretary of State for Transport will report on the Transport Council on 10 May. This agreed substantial increases in the road haulage quota for the next five years and adopted conclusions on the Vehicle Weights Directive which included a

satisfactory derogation for the United Kingdom. High level groups were set up, to report by the end of the year, on how more flexibility could be introduced into the current civil aviation system and to work out a timetable for road transport liberalisation and harmonisation. The transport infrastructure programme for 1983 and 1984 was adopted with all the British projects agreed; these should bring a small net benefit of about £1.25 million. There was also agreement to a Recommendation on railway co-operation and to Resolutions on road safety and drivers' hours. The Secretary of State for Transport took the opportunity to announce the new cheap air fares between London and Amsterdam which result from a measure of liberalisation agreed bilaterally with the Netherlands' Government.

5. The Education Council meets on 21 May, the Energy Council on 22 May and the Fish Council on 24 May. There will be an informal meeting of Foreign Ministers on 25-27 May.

RCA

ROBERT ARMSTRONG

16 May 1984

FROM THE MINISTER FOR INDUSTRY AND EDUCATION

xPC

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
TELEPHONE: 01-233 3000

Brian J P Fall Esq
Private Secretary to The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2BL

File

R. Turnbull to see

15 May 1984

A.J.C. 16/5.

VISIT TO BRUSSELS 30 MAY 1984

On 31 October last year at the invitation of my Minister, Mr Allan Stewart MP, Commissioner Giolitti (responsible for Directorate General XVI; Regional Policy) came to Glasgow to see the efforts made in Scotland to promote and make use of European Community instruments for regional development.

The focus of Mr Giolitti's visit was the use which the Industry Department for Scotland, at Mr Stewart's behest, is making of the European Regional Development Fund Non Quota section. In particular Mr Giolitti and Mr Stewart took the opportunity for a joint launch of the new Better Business Services Scheme, introduced with the aid of Non Quota funds.

Mr Stewart and Mr Giolitti both attach value to the contact made at Commissioner/ Ministerial level and to the opportunity, which the Non Quota programme has provided, to introduce practical measures to help small firms in Scotland. Mr Stewart received from Mr Giolitti an open invitation to come to Brussels to discuss further uses of European Community funds in Scotland. Now that he has identified further applications in Scotland for Non-Quota fund which needs to be discussed with the Commission, Mr Stewart is keen to take up this invitation, and 30 May has been identified as a convenient date. It is expected that the bulk of the discussions will take place with DGXVI, though Mr Stewart may also take the opportunity to have meetings at Commissioner and official level with DGIII (Industrial Affairs) and DGV (Employment and Social Affairs). Jim Currie at UKREP has been kept in touch with these plans.

Mr Stewart will of course ensure that colleagues in the Department of Trade and Industry and other departments are kept informed of any developments which arise out of these discussions and which are of interest for the administration of European Community Funds throughout the UK.

I am copying this letter to John Coles at No 10, Murdo Maclean at the Chief Whips Office, Kate Rhind at DTI and Richard Hatfield in the Cabinet Office.

I am also sending a copy to Jim Currie at UKREP.

GERARD HETHERINGTON
Private Secretary

16 MAY 1984

CONFIDENTIAL

Qz.03709

NOTE FOR THE RECORD

EUROPEAN COMMUNITY: REFORM OF THE FINANCING SYSTEM AND UNITED KINGDOM REFUNDS

I attended the dinner and discussion between the Foreign and Commonwealth Secretary and the French Minister responsible for European affairs, Monsieur Dumas, in Brussels last night. Monsieur Legras was also present.

2. Although the discussion was friendly, the substance of Monsieur Dumas' comments on the settlement of a reform of the Community's financing and United Kingdom refunds was negative. On this basis it could be concluded that the French Government did not like the system proposed at the last European Council in their own Presidency paper and would do little or nothing to achieve it in the period up to and at the next European Council.

3. The main points discussed were:

(i) Timing of future discussions. The Foreign and Commonwealth Secretary reiterated that, subject to movement by all member states to a satisfactory compromise, the United Kingdom had seen some advantages for the Community in a settlement of this issue before the European election campaign got under way. If this were not possible, it would still be necessary to carry forward some preparatory work, so that the discussion at the next European Council was properly prepared. He hoped that the Presidency would do this and, in particular, would look at the possible figures for the threshold and rate of compensation, which would need to be settled anyway within the system. We would be ready to discuss these figures, on the assumption that they would be consistent with a compromise on the disputed notional figure for the United Kingdom refund

/within

within the system (1000-1250 million ecu on 1983 figures). Monsieur Dumas said that the disagreement was so wide that he did not see any realistic basis for such discussions and he took the view that there was little which could be helpfully tackled now. He was pessimistic; he did not think that an agreement could be reached before the European election campaign and member states might have little incentive to reach such an agreement on the system afterwards. The French President, Monsieur Mitterrand, would be making visits to all the principal capitals again before the next European Council.

The Foreign and Commonwealth Secretary and I made clear that we did not share Monsieur Dumas' pessimistic assumption. There were a large number of member states which recognised that a settlement could be reached and were pressing for other elements in the package; in particular, an agreement to increase the Community's own resources. It was apparent that the Community's finances were in serious difficulty which would increase if there were no budget settlement. Many member states had a lot to lose if the failure to increase Community resources forced them towards a greater share of national financing. French farmers were expensive.

(ii) <u>The British case</u>. The Foreign and Commonwealth Secretary stressed that the contribution which the United Kingdom was making to the Community, apart from the strictly budgetary contribution, was very large indeed - the huge market for Community manufactured and agricultural products, defence commitments, fishing resources etc. In these circumstances it was essential that any budget settlement could be genuinely shown to be defensible and fair. The Community had been fairly close to such a settlement at the last European Council. Monsieur Dumas and Monsieur Legras said that the British position on the figures, together with the nature of the system in the Presidency document, would give rise to a very high rate of compensation for the United Kingdom (Monsieur Legras suggested 80-90%) and on reflection this was not possible; it would mean

/that

that the United Kingdom's contribution to enlargement was minimal. The Foreign and Commonwealth Secretary pointed out that even under the proposed system the United Kingdom would remain for the foreseeable future the second largest net contributor and would, of course, be making a very large contribution to an enlarged Community. The system certainly did not insulate the United Kingdom from the effects of enlargement.

There was a brief discussion of the date at which a new system might come into effect. In recapitulating the present position, Monsieur Dumas referred to the proposal for 1 ad hoc year followed by the system. It was only when prompted by Monsieur Legras that he corrected himself to 1 or more ad hoc years. The Foreign and Commonwealth Secretary made quite clear that there was no logic in the suggestion that there should be more than 1 ad hoc year, since within a satisfactory package new own resources would be available in 1986 to finance the 1985 refund. We were not prepared to accept an arrangement with more than 1 ad hoc year.

(iii) Situation if no agreement on a system. Monsieur Dumas said that he had been giving thought to the situation if there were no agreement on a system at Fontainebleau. He suggested tentatively that there might be agreement on a refund for 1984 of 1000 million ecu and all other problems would be left over. The Foreign and Commonwealth Secretary said that he did not think that the Presidency should look for solutions other than an agreement on the whole package.

(iv) Handling of the European Council of 25-26 June. Since Monsieur Dumas had suggested the possibility of the European Council on 25-26 June not reaching agreement on the reform of the Community's financing system, we asked how other issues might be handled by the French Presidency. It was obvious that in the absence of a long term agreement on the reform of the

/Community's

Community's finances, there could be no increase in the Community's own resources (the 1% VAT ceiling). Monsieur Dumas said that of course other elements of the package would fall.

4. There was no substantive discussion of points outside the post-Stuttgart package. Monsieur Dumas volunteered that he would like to have a further meeting or discussion with the Foreign and Commonwealth Secretary before too long. He also thanked the Foreign and Commonwealth Secretary for the position which the United Kingdom had taken in relation to the timing of the reform of the acquis communautaire for fruit and vegetables in the prospect of an enlarged Community.

D F Williamson

D F WILLIAMSON

15 May 1984

cc: Mr Bone)
Sir C Tickell) FCO
Mr Renwick)

Mr Unwin, H M Treasury

Sir Michael Butler, UKREP, Brussels

Sir John Fretwell, PARIS

Sir Robert Armstrong
Mr Stapleton

bc: Mr Coles, No 10

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM AT

1515

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H OET

14 May 1984

Mr. Turnbull

Dear Norman

DRAFT EC RESOLUTION ON UNFAIR COMMERCIAL PRACTICES IN SHIPPING

Thank you for your letter of 1 May about this draft resolution, in which you set out some difficulties with the UK line which I proposed in my letter of 30 March to Geoffrey Howe.

Let me say, first, that there is no question of our accepting the French ideas on the subject of unfair commercial practices in shipping or of making any compromise moves towards their position. What the French want is a protectionist measure, which safeguards their fleet from aggressive competition, whether fair or unfair, from non-Community carriers, and which does nothing to hinder them from subsidising their national flag vessels. An initiative of this sort runs completely counter to UK shipowners' and shippers' interests.

What we want to do is to use the French initiative as a vehicle for our own ideas on unfair competition, by which we mean competition from subsidised and state-controlled carriers - particularly from the Soviet bloc. An initiative of this sort does no damage to our shippers' interests (they have, indeed, expressed sympathy with the idea) and would be of real value to our shipowners. I should need some very convincing reasons for abandoning the attempt to amend the French proposals in a direction that helps UK interests and relying, instead, on blocking tactics.

Clearly, worries about Community competence can occasionally deter us from pursuing EC action, even if that action is to our advantage. But the competence fears have to be pretty substantial and publicly defensible. I do not believe the competence implications in this case are sufficient to deter us from prosecuting British interests. Essentially, our proposal is that the question whether competition is unfair and is doing damage should be investigated by the Commission by reference to predetermined, objective criteria. Having conducted their investigations, the Commission would return to the Council with a recommendation for or against the imposition by the Community of a compensatory levy. The Council would have the final say-so on the matter. We are proposing that the Council should take such decisions on the basis of a qualified majority (rather than by unanimity, as under Treaty Article 84(2)) and we are hoping that a Commission proposal to take action would be rather difficult to thwart. This is because, taking our shipper and shipowner interests together, the UK has more at stake than any other Community country. Thus, we are the ones most likely to want to see action taken against unfair competition and have every reason to welcome the adoption of an EC machinery that promises us some prospect of support from our partners.

The price we would have to pay to secure such an EC machinery is the loss of our freedom to act unilaterally. This loss is less significant than it might seem. In theory, my powers under S14 of the Merchant Shipping Act 1974 could be used to take unilateral action against a third country which was a source of unfair competition. In practice, such unilateral action would often be circumvented by ships of the offending country unloading their cargoes at continental ports and trans-shipping them to the UK. Additionally, unilateral action by the UK (although it may be unavoidable in some cases) increases the risk that we suffer damaging retaliatory action and endanger our diplomatic relations.

For all these reasons, I believe that joint Community action is the right approach to unfair competition and that the UK should promote a Community instrument to this end. Whether we will actually succeed in getting such an instrument is a different and more doubtful matter. But we should be wrong not to try.

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

Yours ever
Nicholas

NICHOLAS RIDLEY

Euro Pol
Budget
pk 24

010

Prime Minister.

A.J.C. 14/5

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

14 May 1984

TRANSPORT COUNCIL: 10 MAY

I can report that we made some very useful progress at the Transport Council on 10 May; particularly on liberalisation of road haulage and aviation.

On road haulage, although the Germans and other restrictionist states would not agree to a date for full liberalisation, I was able to secure agreement to the establishment of a high-level group of officials with a remit to work out a timetable for liberalisation and for harmonisation in parallel. The group will report back to the December meeting of the Transport Council. I made it clear that we could not agree to further harmonisation measures without a firm timetable for liberalisation, and the terms of reference for the group reflect this understanding. For the immediate future I was also able to obtain agreement to a 30% increase in the road haulage quota for 1985, and cumulative increases of 15% for each of the following four years. This is the largest increase in the quota ever agreed, and will greatly help our road haulage industry. It takes us a useful step towards the fully liberal arrangements we want, although the details for achieving these will still take considerable effort and work.

The discussion on aviation was less difficult than I expected, although the Germans and Danes remain strongly resistant to change. The Council agreed that there should be a report, again by December, on measures which could be adopted to liberalise air transport. The basis for the discussions will be the Commission's recent Memorandum and Proposals. I do not think we could have realistically hoped for more than this - and indeed many thought we would achieve less. I am sure that the impetus for reform was significantly helped by the announcement I made that the UK would no longer require domestic airlines to consult on fares, and the news of the new British Airways, British Caledonian and KLM fares to Amsterdam.

I received strong support on both air and road transport from the Dutch Minister and will be meeting her again shortly to try to work out a liberal bilateral agreement on air services between the United Kingdom and the Netherlands.

We were also able to obtain a reasonably good assurance, in the Council Conclusions on Vehicle Weights and Dimensions, that our need for a derogation on maximum weights would be respected as part of the balanced package covering this; the quota; and other road transport issues.

The Council also agreed a two year Regulation allocating the 1983 and 1984 Budget funds for transport infrastructure; this should bring us a small net benefit of about £1.25m. No commitment was made to longer-term infrastructure support.

There was also agreement to a Recommendation on co-operation between the Community's railways, and to Resolutions on Road Safety and Drivers Hours. On all of these I was able to secure texts which were very close to our preferred versions.

The French thus had an unusually successful Transport Council, which also served our interests better than has been the case for some time.

Copies of this letter go to the Prime Minister, the members of OD(E) and to Sir Robert Armstrong.

NR

NICHOLAS RIDLEY

13E

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

European Community

The Prime Minister is concerned that, when the post-Stuttgart package on the reform of the Community's financing and the "relaunch" of the Community is settled, probably in June, we should be ready to put forward within the Community specific initiatives of potential benefit to the United Kingdom. She recognises that we did set out certain objectives in the paper which we tabled on new policies and that some of these - for example, on transport and on insurance - are being followed up. She has in mind two points in particular.

First, she would like to know whether we can identify specific products or product areas in which the absence of common standards within the Community is a clear barrier to the development of United Kingdom production and exports to other member states. If so, can we specify the products on which we might press for action within the Community with a reasonable prospect of success. She has noted the importance which the French and Germans apparently attach to this issue, including standards for new products of high technology, and would therefore be glad to know whether we can gain industrial advantage by deflecting attention within the Community towards products of potential interest to United Kingdom manufacturers and exporters.

Secondly, the Prime Minister has noted that there are pressures within the Community (which will no doubt increase if there is a settlement on Community financing) for collaborative action in specific sectors of technological importance. Following the decision on the ESPRIT programme on research and development in information technology, there is already a first discussion within the Community about biotechnology and telecommunications. The Prime Minister attaches great importance to the principle of cost effectiveness set out in the paper on new policies. Subject to that point, she would like to know whether there are significant existing obstacles to collaboration between enterprises or possibilities for enlarging the markets for products of interest to us which we might follow up. She does not want to leave the French making the running.

/The

The Prime Minister would be grateful if you could arrange for officials to look at these points and to submit a note to OD(E) in advance of the European Heads of Government meeting on 25-26 June. BF

I am sending copies to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Energy, the Secretary of State for Trade and Industry and the Secretary of State for Transport.

FERB

11 May, 1984

A Message from
DAVID WILLIAMSON

ROBIN BUTLER

Here is a draft minute for you to send to Sir Robert Armstrong about standards and other industrial programmes within the Community, on the lines discussed during the Prime Minister's visit to Paris on 4 May. The Foreign and Commonwealth Office and the Department of Trade and Industry are aware that a minute on these lines may be coming.

11 May 1984

D F Williamson

CONFIDENTIAL

~~Draft minute~~ for the signature of ~~Mr Robin Butler~~
SIR ROBERT ARMSTRONG

EUROPEAN COMMUNITY

The Prime Minister is concerned that, when the post-Stuttgart package on the reform of the Community's financing and the "relaunch" of the Community is settled, probably in June, we should be ready to ~~identify and give~~ put forward ~~some impetus~~ within the Community ~~to~~ specific initiatives ~~actions~~ of potential benefit to the United Kingdom. She recognises that we did set out certain objectives in the paper which we tabled on new policies and that some of these - for example, on transport and on insurance - are being followed up. She has in mind~~, however,~~ two points in particular.

First, she would like to know whether we can identify specific products or product areas in which the absence of common standards within the Community is a clear barrier to the development of United Kingdom production and exports to other member states. If so, can we specify the products on which we might press for action within the Community with a reasonable prospect of success. She has noted the importance which the French and Germans apparently attach to this issue, including standards for new products of high technology, and would therefore be glad to know whether we can gain industrial advantage by deflecting attention within the Community towards products of potential interest to United Kingdom manufacturers and exporters.

/Secondly,

Secondly, the Prime Minister has noted that there are pressures within the Community (which will no doubt increase if there is a settlement on Community financing) for collaborative action in specific sectors of technological importance. Following the decision on the ESPRIT programme on research and development in information technology, there is already a first discussion within the Community about biotechnology and telecommunications. ~~President Mitterrand clearly~~ attaches a lot of importance personally to such initiatives for cooperative action, whether on a Community level or among commercial enterprises in two or more member states, and the Prime Minister wishes to be prepared if he returns to this theme at the next European Council in Fontainebleau on 25-26 June. The United Kingdom's approach was set out in the paper on new policies, namely that:

> "in considering what policies the Community should pursue as a priority, the United Kingdom believes that the principal criterion should be whether more can be achieved, or can be achieved more economically, by action on a Community basis rather than nationally".

~~For reasons of public expenditure and the best use~~
The Prime Minister attaches great importance to the principle of
~~of scarce resources this principle of cost-effectiveness~~
cost-effectiveness set out in the paper on new policies. Subject
~~must be respected. There is no question of picking~~
to that point, she
~~or aiding winners. But the Prime Minister~~ would like to know whether there are significant existing obstacles to collaboration between enterprises or possibilities for enlarging the markets for products of interest to

/us

us which we might follow up. ~~She would be glad to know whether we can identify sectors where, while respecting these principles, the United Kingdom could benefit.~~ She does not want to leave the French making the running.

The Prime Minister would ~~I should~~ be grateful if you could arrange for officials to look at these points and to submit a note to OD(E) ~~for the Prime Minister~~ in advance of ~~in good time before~~ the European Heads of Government meeting on 25 - 26 June.

I am sending copies to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Energy, the Secretary of State for Trade and Industry and the Secretary of State for Transport.

CC/¹/₀

FCS/84/133

N.B.P.R.

AR 7/5.

CHANCELLOR OF THE EXCHEQUER

Community Budget 1984: Commission Proposals for Additional Financing in Excess of 1% VAT Ceiling

1. Thank you for your minute of 1 May, covering the Treasury paper on the Commission proposals.

2. I agree with the objectives set out in the Treasury paper. As the Prime Minister told the House on 26 April there is no question of our agreeing to additional financing for 1984 while other matters remain unresolved. You also made this clear to Ortoli on 12 April.

3. I have the following more detailed comments. The paper is right to bring out that the best option for us, genuine national financing without subsequent reimbursement (para 14), is unlikely to be achievable. If no additional finance were agreed and funds for FEOGA payments ran out in November, Governments would almost certainly be obliged to take over those payments themselves. If that happened all other Member States would expect reimbursement in 1985 and the likelihood is that the Commission would take the view that this was essential to maintain the CAP. We could question the legality of this proceeding, but could not rely on successful legal challenge. My difficulty is therefore more with the substance of the option than with the presentational aspect identified in Michael Jopling's letter to you of 3 May.

4. I agree that we should continue to press for savings and deferments in agricultural spending where these are feasible. As Michael Jopling points out, it is unlikely to be possible to find

/genuine

genuine savings on the scale required to close the gap. We should also try to establish the extent to which the option of deferring expenditure is likely to be pre-empted by agricultural traders exercising to the maximum their ability to use prefixed subsidy levels which the Commission is then obliged to honour. If we wish to keep open deferral as a major option we should explore what scope we would have for asking the Commission to curb prefixing. As officials have agreed, there will be tactical advantage in putting much of the emphasis on the wider arguments - questioning the propriety of financing current expenditure by borrowing and the legality of action based on Article 235. In preliminary discussion of the Commission's proposal we have been in good company in expressing doubts about the wider implications. The Italians have difficulties with the legal aspects of the proposal as do the Germans; both the Germans and the French are no less anxious than we are to see a thorough examination of the Commission's estimates. The Dutch share many of our concerns. The more we can encourage other Member States to make the running, the better.

5. We should be able to pursue these arguments successfully for some time. If there is no agreement on budget imbalances, we shall wish to maintain a very tough line. We must meanwhile look very carefully at the ways in which others might seek to raise some additional finance by qualified majority voting, e.g. through waiving the 10% collection rebate. Work is in hand on this.

6. If we get agreement on budget imbalances, it will still be in our interest to see as much expenditure as possible deferred until 1985, when we should be protected by the system. In the event or context of an agreement, however, we might very well find ourselves under strong pressure to agree to some limited financing of the current deficit.

/7.

7. No decisions need to be taken about this now but it obviously would be prudent for your officials to start giving some thought as to how, if it seemed an indispensible element in the context of a generally satisfactory agreement, this might be achieved in the least expensive way.

8. It would seem the more important to do so as, following further examination of the figures and the scope for savings, the French may start trying to bring forward proposals to deal with the residual deficit in June. They are strongly opposed to the kind of loan envisaged by the Commission as, I think, are the Germans. They appear to be thinking in terms of agreement on some form of advance.

9. I am copying this minute to the Prime Minister, the Lord President and the Lord Privy Seal, to members of OD(E) and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
10 May 1984

EURO POL : Budget

Pt 24

Ref. A084/1378

PRIME MINISTER

Cabinet: Community Affairs

You may wish to inform Cabinet of the Community aspects of your talks with the French President on 4 May.

2. The Foreign and Commonwealth Secretary will report on the third Ministerial negotiating conference for the Lome III Convention in Fiji on 1-5 May at which the United Kingdom was represented by the Minister for Overseas Development. Some big problems remain, notably the size of the next European Development Fund and some aspects of the trade arrangements. The Community and the beneficiary countries (35 of which are within the Commonwealth), however, consider that the progress on this occasion towards the new Lome Convention was reasonable. The French Presidency may achieve their aim of solving the remaining outstanding problems at the next Ministerial conference on 28-29 June.

3. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 7 May. The Republic of Ireland again blocked a five-year agreement on New Zealand butter imports, although other member states and the Presidency were in favour of an immediate decision on the five-year (or at least a three-year) agreement. A further two-month rollover was agreed to allow the Commission time for further informal consultations with New Zealand. The Council also established a new high level Agriculture Structures Group to try to speed progress on the new structures policy.

4. There is a Transport Council on 10 May, Finance Ministers meet informally on 12-13 May, and the Foreign Affairs Council meets on 14-15 May.

RTA

ROBERT ARMSTRONG

9 May 1984

OLO ecNO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF6456

Secretary of State for Trade and Industry

9 May 1984

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

A.J.C. 9/5

f.a.

D Nigel.

COMMUNITY BUDGET 1984 : COMMISSION PROPOSALS FOR ADDITIONAL FINANCE IN EXCESS OF THE 1 PER CENT VAT CEILING

(with AJC)

Thank you for sending me a copy of your letter of 1 May to Geoffrey Howe. I agree with the line set out in the paper you attached and that, provided other colleagues concur, there is no need for a meeting to discuss the paper.

2 I am copying this letter to the recipients of yours.

Yours

Norman

NORMAN TEBBIT

010

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 3781
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From the Parliamentary Under Secretary of State for Industry

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

cc Members of:
OD(E) Committee
L Committee
Sir Robert Armstrong

Mr G Milward MM4
(with papers)

8 May 1984

A.J.C. 9/5

Dear Geoffrey,

EUROPEAN COMMUNITY DOCUMENT RECOMMENDED FOR DEBATE

On 11 April 1984, the House of Commons Select Committee on European Legislation & C considered a proposal concerning a Community Directive on containers of liquids for human consumption, usually referred to as the beverage containers Directive (official text not yet received). This proposal was found to be politically important and was recommended for debate.

The considerations affecting the debate on this document are as follows:

Timetable

It is likely that the Council will be asked to take a decision on the proposal on 28 June and a debate should be held at least two weeks in advance if possible.

Location

The Scrutiny Committee made no recommendation on where the debate should be held. In view of the concern already expressed by industry and trade bodies about this proposal and the likely widespread interest in it, a debate on the Floor of the House would seem to be appropriate. It does not, however, merit prime time.

Form of Motion

I suggest an expanded take-note motion along the following lines:

> "That this House takes note of the European Community document (official text not yet received) proposing a Council Directive on containers of liquids for human consumption, and supports the Government's intention to improve the environment and conserve resources without imposing unnecessary legislative burdens on industry."

Proposed line in Debate

We will take the line that, while we support the intentions behind the proposed Directive, namely to improve the environment and to save energy and raw materials, we are still unconvinced of the need for binding Community legislation and believe a Recommendation would suffice. This line has been followed by UK officials in Brussels during the Working Party discussions which have taken place over the last 18 months.

I propose to handle the debate.

I am sending copies of this letter to Members and Secretaries of OD(E) and L Committees and Sir Robert Armstrong.

Yours ever,

David

DAVID TRIPPIER

	1 VAT 1% BASE MECU	2 VAT (GNP) PAYMENTS MECU	3 VAT (GNP) SHARE %	4 LEVIES MECU	5 SHARE %	6 DUTIES MECU	7 SHARE %	8 GDP B ECU	9 GDP SHARE %	10 POPULATION SHARE %	11 GDP PER HEAD IN CURRENT YEAR AS A RATIO [EC12=100]	12 GDP PER HEAD 3 YEAR MOVING AVERAGE [EC12=100]	13 FEOGA GUARANTEE EXPENDITURE %	14 NET CONTRIBUTION MECU
UNITED KINGDOM	2140.0	1685.2	18.05	395.5	22.63	1550.9	24.26	446.0	20.30	20.68	106	97	9.85	- 1419
BELGIUM	490.0	374.6	4.01	206.2	11.80	408.4	6.39	85.2	3.88	3.64	116	124	4.46	+ 276
DENMARK	250.0	212.3	2.27	29.4	1.68	135.2	2.12	52.1	2.37	1.89	136	141	4.63	+ 279
GERMANY	3620.0	2759.3	29.55	306.8	17.55	1943.8	30.41	612.2	27.87	22.77	133	139	18.54	- 1684
GREECE (1)	(195.0)	(151.4)	(1.62)	18.4	1.05	84.6	1.32	33.0	1.50	3.59	45	45	1.33	+ 173
FRANCE	2840.0	2236.0	23.94	257.7	14.74	977.3	15.29	510.2	23.22	19.92	126	127	27.50	+ 576
IRELAND	88.0	70.9	0.76	8.9	0.51	81.9	1.28	15.0	0.68	1.27	58	55	4.00	+ 582
ITALY	1460.0	1333.8	14.28	310.0	17.74	633.0	9.9	313.8	14.28	20.86	74	72	19.09	+ 788
LUXEMBOURG	22.0	20.7	0.22	0.1	0.01	4.5	0.07	3.5	0.16	0.14	128	132	0.04	+ 239
NETHERLANDS	600.0	494.9	5.30	214.5	12.28	572.8	8.96	125.9	5.73	5.26	118	125	10.56	+ 190
EEC (10)	11705.0	9339.2	100	1747.5	100	6392.3	100	2196.9	100	100 (2) (270.9m)			100 (3) (10960.2 MECU)	0

(1) Greece paid on the basis of GNP share, the balance was divided amongst the other nine member states by VAT shares.

(2) Total population of the EC.

(3) Total FEOGA - Guarantee expenditure.

Euro budget

H.M. TREASURY
JANUARY 1984

1982

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	VAT 1% BASE MECU	VAT (GNP) PAYMENTS MECU	VAT (GNP) SHARE %	LEVIES MECU	SHARE %	DUTIES MECU	SHARE %	GDP B ECU	GDP SHARE %	POPULATION SHARE %	GDP PER HEAD IN CURRENT YEAR AS A RATIO [EC12=100]	GDP PER HEAD 3 YEAR MOVING AVERAGE [EC12=100]	FEOGA GUARANTEE EXPENDITURE %	NET CONTRIBUTION MECU
UNITED KINGDOM	2900.0	2680.7	21.98	548.3	24.61	1784.5	26.18	480.3	20.05	20.64	105	103	10.33	- 2036
BELGIUM	510.0	468.0	3.84	283.0	12.70	403.7	5.92	84.6	3.53	3.63	105	115	4.33	+ 253
DENMARK	265.0	244.5	2.00	32.9	1.47	142.6	2.09	57.4	2.40	1.89	138	136	4.50	+ 295
GERMANY	3610.0	3347.1	27.44	392.0	17.60	1966.5	28.85	672.3	28.07	22.71	134	135	16.39	- 2086
GREECE (1)	(230.0)	(197.0)	(1.61)	76.6	3.44	108.7	1.60	38.2	1.59	3.61	48	45	5.53	+ 685
FRANCE	3150.0	2914.8	23.90	281.9	12.65	1071.2	15.72	549.6	22.95	19.98	124	126	23.17	- 19
IRELAND	100.0	92.4	0.76	13.0	0.58	87.8	1.29	17.8	0.74	1.28	63	59	4.01	+ 732
ITALY	1725.0	1592.2	13.05	368.6	16.55	660.8	9.70	351.5	14.68	20.87	76	74	20.23	+ 1616
LUXEMBOURG	24.0	22.0	0.18	0.1	0.01	4.3	0.06	3.6	0.15	0.13	121	127	0.02	+ 256
NETHERLANDS	690.0	638.6	5.24	231.4	10.39	585.2	8.59	139.8	5.84	5.27	120	121	11.45	+ 304
EEC (10)	13204.0	12197.4	100	2227.8	100	6815.3	100	2395.1	100 (271.432m)	100			100 (12369.5 MECU)	0

(1) Greece paid on the basis of gnp shares, the balance was divided amonst the other nine member states by vat shares.

H.M. TREASURY
JANUARY 1984

1983

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
	VAT 1% BASE MECU	VAT (GNP) PAYMENTS MECU	VAT (GNP) SHARE %	LEVIES MECU	SHARE %	DUTIES MECU	SHARE %	GDP B ECU	GDP SHARE %	POPULATION SHARE %	GDP PER HEAD IN CURRENT YEAR AS A RATIO [EC12=100]	GDP PER HEAD 3 YEAR MOVING AVERAGE [EC12=100]	FEOGA GUARANTEE EXPENDITURE %	NET CONTRIBUTION MECU	VAT/ EXPENDITURE GAP.
UNITED KINGDOM	2925.6	2919.6	20.99	394.1	16.19	1910.0	26.40	499.9	19.45	20.60	103	105		-1913	-1680*
BELGIUM	481.0	480.0	3.45	349.1	14.34	435.0	6.01	93.0	3.62	3.64	109	110		207	636
DENMARK	279.3	278.7	2.00	45.6	1.87	160.0	2.21	62.5	2.43	1.88	141	139		331	350
GERMANY	4011.7	4003.5	28.79	485.8	19.96	2080.0	28.75	733.8	28.55	22.66	138	135		-2300	-2451
GREECE (1)	(227.0)	(217.0)	(1.56)	60.0	2.47	120.0	1.66	38.8	1.51	3.64	46	47		942	962
FRANCE	3203.2	3196.7	22.98	371.9	15.28	1105.0	15.27	574.0	22.34	20.04	122	125		5	-777
IRELAND	134.8	134.5	0.97	18.9	0.78	100.0	1.38	19.7	0.77	1.29	65	62			
ITALY	1920.4	1916.5	13.78	451.2	18.54	690.0	9.54	395.8	15.40	20.89	81	77		1324	1150
LUXEMBOURG	30.9	30.8	0.22	0.1	0.00	4.6	0.06	3.6	0.14	0.15	114	119			
NETHERLANDS	732.1	730.6	5.25	257.2	10.57	630.0	8.71	148.8	5.79	5.30	120	119		269	262
EEC (10)	13946.0	13908.0	100	2433.9	100	7234.6	100	2569.9	100	100 (271.9m)				368	732

(1) Greece paid on the basis of GNP share, the balance being divided amongst the other nine member states by VAT shares

* 1622 mecu on "payments" basis

H.M. TREASURY
JANUARY 1984

1984

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	VAT 1% BASE MECU	VAT (GNP) PAYMENTS MECU	VAT (GNP) SHARE %	LEVIES MECU	SHARE %	DUTIES MECU	SHARE %	GDP B ECU	GDP SHARE %	POPULATION SHARE %	GDP PER HEAD IN CURRENT YEAR AS A RATIO [EC12=100]	GDP PER HEAD 3 YEAR MOVING AVERAGE [EC12=100]	FEOGA GUARANTEE EXPENDITURE %	NET CONTRIBUTION MECU
UNITED KINGDOM	2927.0	2927.0	20.04	491.6	16.66	1920.0	25.19	550.2	20.05	20 55	107	105		
BELGIUM	504.0	504.0	3.45	385.2	13.06	451.0	5.92	100.4	3.66	3.63	111	109		
DENMARK	291.0	291.0	1.99	52.6	1.78	166.0	2.18	67.0	2.44	1.87	143	141		
GERMANY	4200.0	4200.0	28.76	558.4	18.93	2180.0	28.60	784.1	28.58	22.61	139	137		
GREECE (1)	(231.5)	(227.8)	(1.56)	116.3	3.94	130.0	1.71	41.0	1.49	3.63	45	47		
FRANCE	3327.0	3327.0	22.78	464.5	15.75	1257.0	16.49	596.8	21.75	20.07	119	122		
IRELAND	126.0	126.0	0.86	20.2	0.68	105.0	1.38	20.3	0.74	1.32	62	63		
ITALY	2238.0	2238.0	15.32	529.2	17.94	800.0	10.49	423.3	15.43	20.88	81	79		
LUXEMBOURG	36.0	36.0	0.25	0.2	0.01	4.5	0.06	3.9	0.14	0.15	116	115		
NETHERLANDS	728.0	728.0	4.98	332.7	11.28	610.0	8.00	156.9	5.72	5.28	118	119		
EEC (10)	14608.5	14604.8	100	2949.9	100	7623.5	100	2743.9	100	100 (272.5m)				

(1) Greece is paying on the basis of GNP share, the balance being divided amongst the other nine member states by VAT shares.

H.M. TREASURY
JANUARY 1984

Top Copy with Questions.

Foreign and Commonwealth Office

London SW1A 2AH

8 May 1984

Dear John,

1983 Refunds: Legal Case

At Question Time on 3 May, the Prime Minister said that the agreement on our 1983 refunds was not a legally binding one. As you know (my letter of 2 May) Whitehall Legal Advisers are of the view that it is highly uncertain that the Stuttgart conclusions on UK refunds can be regarded as creating a binding obligation in Community law. But the Foreign Secretary is seeking the advice of the Law Officers on this point so that Ministers will have an authoritive view.

with NC

The Foreign Secretary believes that, while recourse to the ECJ looks like being a very uncertain option, until we have advice from the Law Officers in that sense, we cannot be sure that we could not bring a successful case. He therefore thinks that we should not rule out the option at this stage. He suggests that the Prime Minister might draw on the following form of words, if asked again about the Community's obligation to pay us the 1983 refunds: "Heads of Government in the European Council entered into a clear commitment to pay refunds to the United Kingdom for 1983. Those refunds were written into the Community budget for 1984. We expect the agreement by the Heads of Government in the European Council to be honoured. The refunds are due to be paid during the current year."

If the Prime Minister were specifically asked about the legal nature of the Community's obligation, she might say: "the agreement is a clear commitment. The Stuttgart conclusions did not specify that the refunds would be paid by 31 March (the date mentioned in the question on 3 May). There was therefore no binding obligation to pay by that date."

If asked:

(i) whether an obligation will arise at some time in the future, or;

(ii) whether, in view of the last sentence in the 3 May reply, at some time in the future withholding would not be contrary to international law, the Prime

/Minister

Minister might wish to take the following line, "I have said what I expect to happen and I do not wish to speculate about the future. I expect the refunds to be paid."

I am sending a copy of this letter to the recipients of my letter of 2 May.

Yours ever

Roger Bone

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

A J Coles Esq
10 Downing Street

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SWIH OET
Telephone (Direct dialling) 01-215) 5186
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From the Minister of State for Industry

Norman Lamont MP

(Ec) (1)
c/ PS
PS/Mr Rifkind
Sir C Tickell
Mr. Renwick

CONFIDENTIAL

The Rt Hon Geoffrey Howe QC MP
Foreign Secretary
Foreign and Commonwealth Office
Downing Street
LONDON
SW1E 2AL

Mr Paul

4 May 1984

4/5

Dear Geoffrey

ERDF: PROPOSED NEW REGULATION

My letter of 26 April, about the line to take in the ERDF negotiations, noted the comments in your own letter of 26 March and the comments from other Ministers.

At the 26/27 April Working Group, the Presidency made determined progress on a text for COREPER on 10 May, with a view to consideration by the Council on 14 May. So far as operational details are concerned, we have virtually achieved an acceptable text and remaining reservations are likely to fall away if the Council reach agreement on the wider issues outstanding.

Level of Ranges

A Presidency compromise might emerge for the minimum guarantees to cover a further 7% or so of the Fund. If so, we should try to use this to have our own guaranteed minimum increased as much as possible, even if that means accepting some matching reduction in the theoretical maximum limits.

Level of Rates

Even Germany has said it is willing to see rates up to 50%. So while I can agree that we still "keep our heads down", if we are not to be isolated we must be prepared if necessary to accept some increase - which we should try to keep related to the Commission's proposal for a 10 points increase in infrastructure project rates, or less. The best course to restrict excessive rate increases is then to go on seeking the same rates across the board and maintaining our opposition to discriminatory higher rates for special schemes, including national programmes. A modest increase would help us and involve no disadvantage as there are other Member States which, unlike us, can readily lodge applications greatly in excess of requirements.

Control of Community Programmes

Other Member States which might be expected to support a unanimous Council decision for Community Programmes now seem ready to consider accepting a qualified majority decision if other interests are met, and the Commission is intent on negotiating on that basis. While we should still support any renewed movement for unanimity, I suggest that we must consider alternative arrangements if we are not to be isolated. We should be ready to take up the Commission's suggestion that a qualified majority vote would have to include a positive vote by Member States affected by the programme, and we should support a German request for a limit on the rates for Community Programmes. I would attach particular importance to limiting the percentage of the Fund used for Community Programmes. It may be difficult to have this in the Regulation as the Commission would see that as returning to the present quota/nonquota division, but the Commission seems ready to offer a declaration in the Council minutes. If we settle for that, we should ensure that the text is as binding as possible; and we should take a firm line in aiming for a limit of 10-15% of Fund resources, only accepting the higher end if that is what is needed to conclude negotiations which are otherwise satisfactory. If unanimous Council decision cannot be achieved, we should have a percentage limit with meaning.

Negative Infrastructure List

We can accept the list as currently negotiated and we should resist additions.

Integrated Mediterranean Programmes

I should mention non-agricultural IMPS. We have pointed out in the ERDF negotiations that there is a connection, but I understand that IMPS have still to be brought clearly within the Structural Funds. I doubt if we could hold up the ERDF negotiations on this account. There is something to be said for settling the new Regulation, and then making IMPS conform, but you may wish to consider.

If there are points requiring further consideration, could notice please be given urgently so that the line can be clear for COREPER on 10 May.

I am copying this letter to members of OD(E) and the Jim Prior, George Younger, Nicholas Edwards, Patrick Jenkin, Tom King, Lord Bellwin and Sir Robert Armstrong.

NORMAN LAMONT

Mr Paul

MF 11/5 ✓ as OB

Treasury Chambers, Parliament Street, SW1P 3AG

10 May 1984

ECD(I)

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
1 Victoria Street
London
SW1H QET

PS
PS/Mr Rifkind
Sir C. Tickell
Mr Renwick

Dear Norman

ERDF: PROPOSED NEW REGULATION

I have seen your letters of 26 April and 4 May to Geoffrey Howe about the UK line on the new ERDF regulation. I understand that officials have since discussed the points raised and there are now two issues which I should like to clarify with you.

You suggest in your letter of 4 May that on the relation between non-agricultural IMPs and the new regulation, our line should be to agree the regulation first and then try to bring IMPs in and make them conform to the new rules. I think this is a risky approach: it provides the Greeks with the opportunity to argue that they agreed to the new regulation on the basis that IMPs were not included, and so to continue to press for separate IMPs. The better course would be to bring IMPs into the discussion of the ERDF now, and not to agree to a new regulation unless IMPs are to be covered. The Greeks are pressing for a larger share of the fund. We should make the point that such an increase could only be justified if IMPs were to be covered.

I therefore suggest that the line we might take at the Foreign Affairs Council should be that we cannot agree to the new regulation unless IMPs are to be covered. We should be able to secure the support of other Northern Member States in this, and the effect will be either to allow discussions of IMPs and the ERDF to continue in parallel or better still to reach agreement that IMPs be included.

In order to bring IMPs into the discussion elsewhere, and to make our line on IMPs more likely to be accepted, we may have to change our stance on one or two items, but this would be a price worth paying if we could secure agreement to the inclusion of IMPs in the structural funds. One is the proportion of the Fund devoted to Community Programmes. You suggest 15% as an absolute upper limit. If IMPs are to be included then it may not prove possible to maintain this line. If so then I would find a move to 20% acceptab

Turning to rates of grant, I accept that if isolated we may need to accept modest increases up to the level of 50%. However, we should do so on the condition that the rate applies across the board, otherwise we may find that a premium for special schemes is added to those higher rates. We should also support the Germans and others in arguing for setting a limit on the rate for Community Programmes. This rate should be that applying across the board and IMPs should be included in such a limit.

I hope that you will agree that this is the better approach to these aspects of the UK stance on the new regulation.

I am copying this letter to recipients of yours.

Yours ever Peter

PETER REES

AJC

CONFIDENTIAL

Ref. No: T&I(84)9
Date: 4.5.84

MOTION ON THE EUROPEAN COMMUNITY DOCUMENTS ON THE EUROPEAN REGIONAL DEVELOPMENT FUND

Tuesday, 8th May, 1984

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

Enquiries on this brief to:
Andrew Dunlop

MOTION ON THE EUROPEAN COMMUNITY DOCUMENTS ON THE EUROPEAN REGIONAL DEVELOPMENT FUND

BACKGROUND

The European Regional Development Fund (ERDF) was established under Article 235 of the Treaty of Rome. The ERDF enables the European Community to supplement the assistance given by national governments to underdeveloped regions where GDP is consistently below the national average; where there is above average dependence on agriculture or a declining industry or where there is a consistently high rate of unemployment or net emigration of the local population. An additional facet of the ERDF is to provide some compensation for the effect of Community policies (e.g. external trade) on the regions. The ERDF came into operation in 1975. Under the ERDF Regulation, national governments retained the right to define their assisted areas, and all applications for ERDF aid are forwarded to the Commission via the appropriate government department. 95 per cent of the Fund is distributed on the basis of national quotas. Since the accession of Greece in 1981, the United Kingdom's quota,originally 28 per cent, has been reduced to 23.8 per cent.

In practice, the quota system for disbursing the Fund has prevented ERDF aid from being concentrated exclusively on those regions which by Community standards need it most. To remedy this, a "non-quota" section of the Fund was introduced in 1979, and this currently accounts for 5 per cent of the Fund. It is intended to aid areas which have suffered from the effects of Community policies, for example as a result of the restructuring currently being undertaken in the steel sector. These non-quota grants have not been allocated to individual projects but go towards general development programmes. Within each programme, money is available for specific projects and also for general schemes, including those to assist small and medium sized enterprises which will provide a better vehicle for stimulating the local entrepreneurial potential for economic development. Commission proposals for non-quota expenditure at present require unanimous approval by the Council.

In October 1981, the Commission proposed a radical revision of the ERDF, to expand the non-quota section to 20 per cent of total spending and to do away with national quotas altogether. To replace this there was to be a system of quotas that would be distributed amongst specific regions; the whole of the Republic of Ireland, Northern Ireland and parts of Scotland, Wales and the North and north-west of England, the Mezzogiorno, the whole of Greece except Athens and Thessalonaki, Greenland and the French overseas departments. Under this proposal ERDF grants, which were paid in support of individual projects undertaken in Members States and which have received national regional aid in one form or another, would be subject to an alternative system under which Member States would be required to submit programmes which when approved would become the subject of "programme contracts" between the Commission and the Member State; grants from the Fund would then be payable in support of programmes rather than in respect of individual projects. The new regulations would have laid down detailed rules for the contents of programmes and would have given the Commission power to lay down special conditions for their implementation.

Negotiations on these proposals failed over a two year period to gain agreement amongst Member States. The proposed regulation would have concentrated the quota section of the fund on the less prosperous regions of the Community by substantially reducing the number of Member States receiving a quota. Although the increase in the UK quota which this would have entailed was welcome, it would have resulted in the exclusion of some of our own assisted areas from quota aid, notably Yorkshire and Humberside, the South West and Corby.

Table on ERDF Aid Commitments to the United Kingdom 1975-83

	Industry £M	Infrastructure	Total
NW England	73.99	107.83	181.82
Northern Ireland	78.90	163.32	242.22
Yorks and Humberside	6.65	72.30	78.95
East Midlands	2.80	10.33	13.13
West Midlands	0.03	4.15	4.18
South West	3.52	34.33	37.86
Northern Ireland	54.03	103.51	157.54
Scotland	77.94	262.52	340.46
Wales	69.75	141.43	211.83
United Kingdom Total	367.60	899.75	1,267.35

Note: For 1975-82, totals represent net values (i.e., commitments approved up to the end of 1982 less de-commitments agreed in the same period). For 1983, the figures are gross, no allowance being made for de-commitments made during the course of them year. Figures may not exactly tally through roundings.

(Source: Department of Trade and Industry)

The ERDF, while still only a small element of the total EC budget, has been rising as a proportion of total expenditure from 4.8 per cent in 1975 to 7.6 per cent in 1982. At present the fund may contribute to the financing of industrial investments which exceed £28,500, which are located in an assisted area, and which create or preserve a minimum of 10 jobs. Aid from the fund can cover up to 20 per cent of the cost of a project, and must not exceed 50 per cent of the aid allocated by the Member State. For infrastructure projects the fund's contribution can, exceptionally, be as high as 40 per cent of the total cost; normally, infrastructure improvements which contribute to regional development qualify for 30 per cent of the cost of projects up to £5.7 m, and between 00-30 per cent for more expensive schemes.

Requests for grants from the Fund can only be made by Governments. Once approved, payments are made to individual Governments, who can then forward the money to the project sponsor or treat the payment as part of its own regional spending. IO practice, the British Government has taken expected ERDF receipts into account when drawing up its own expenditure plans for regional aid.

Proposed Changes to the Operation of ERDF

The Commission, in the light of the failure to gain a consensus on its original proposals withdrew the package and replaced it with new proposals on 22nd Novwember 1983.

Although the Commission has stated that its long term aim remains the abolition of a national quota system, they have abandoned this idea in the short term. The new ERDF Regulation proposes that the non-quota section be abolished. The tasks of the non-quota section will be introduced into a new flexible quota system by means of new definitions of "Community Programmes" as distinct from 'national programmes of community interest'.

The new quota section will set a lower and upper limit governing a member state's share of the ERDF over a five-year period.

By introducing this element of flexibility, there is greater scope for the Community to concentrate assistance on those regions which require it most, while at the same time satisfying the national desire not see any of its own assisted areas excluded from aid under the quota section of the Fund.

Member State	proposed quota lower limit	upper limit	average of 1 and 2	previous quota
Belgium	0.85	1.20	1.025	1.11
Denmark	0.81	1.14	0.975	1.06
Germany	3.55	4.81	4.18	4.65
Greece	11.05	15.60	13.325	13.00
France	10.04	14.74	12.39	13.64
Ireland	5.05	7.13	6.09	5.94
Italy	30.17	42.59	36.38	35.49
Luxembourg	0.06	0.08	0.07	0.07
Netherlands	0.95	1.34	1.145	1.24
United Kingdom	20.23	28.56	24.395	23.80

(Source:- Commission.)

Activities helped by the European Regional Fund

The Fund may contribute to the financing of investments in the following categories:

1) Industrial, handicraft or service activities which are viable and which benefit from Government regional assistance. Preference is given to projects which create new jobs or preserve existing jobs. Service activities qualifying for assistance are those concerned with tourism and those which have a choice of location. The latter must have direct impact on the development and emplyment prospects of assisted areas. Since 1975 more than 500,000 jobs have been created or preserved with the aid of the fund.

2) Regional infrastructure projects financed wholly or in part by a public authority or a related agency. The Fund's contributution to these projects cannot normally exceed 70 per cent of the total fund. However, in 1983 due to the lack of applications for category 1)the European Parliament approved a Commission proposal that the 70 per cent could be exceeded and this was subsequently approved by the Council.

3) Infrastructure projects are eligible under the Council Directive on mountain and hill ,farming, provided that they are located within an assisted area.

In addition, cheap loans are available within the assisted areas, from the Euopean Investment Bank.

European Regional Development Fund Aid
1975–82
(in million units of account*; number of assisted projects in parentheses)

Country	Industry, Handicrafts, Services		Infrastructures		Hill Farming		Total	
Belgium	26.02	(62)	38.62	(205)	6.29	(37)	70.93	(304)
Denmark	8.96	(128)	71.05	(430)	NIL		80.02	(558)
France	273.60	(1.294)	848.59	(1.262)	13.87	(130)	1.135.96	(2.686)
Germany	208.51	(1.228)	178.11	(567)	NIL		386.62	(1.795)
Greece	22.48	(48)	450.67	(437)	NIL		473.15	(485)
Ireland	132.29	(233)	307.28	(387)	13.07	(72)	452.64	(692)
Italy	341.72	(1.128)	2,339.89	(4.752)	65.67	(1.080)	2.747.28	(6.960)
Luxembourg	NIL		7.12	(9)	NIL		7.12	(9)
Netherlands	17.22	(11)	81.42	(40)	NIL		98.64	(51)
United Kingdom	517.31	(591)	1.192.42	(3.502)	24.80	(138)	1.734.53	(4.231)
Total Eur. 10	1.548.11	(4.723)	5.515.17	(11.591)	123.71	(1.457)	7.186.89	(17.771)

*Approximate, since grant decisions are made in national currencies

(*Source:* Com (83) 566 final, 3rd October 1983)

The Review of Regional Policy

The Government published on 13th December 1983 a White Paper entitled Regional Industrial Development, Cmnd.9111. The White Paper upheld the Government's earlier commitment in the Conservative Manifesto 1983 to maintain an 'effective regional policy', though it makes clear that 'the case continuing the policy is now principally a social one with the aim of reducing regional balances in employment opportunities.' The main points of the White Paper were:

- There will be a shift of emphasis from automatic to selective assistance.
- There will be a cost-per-job ceiling on regional grants.
- There will be more aid for many, though not all, service industries.
- The map of the assisted areas will be redrawn on revised Travel-to-Work Areas. This is because the present boundaries are seriously out of date and include some areas whose problems are much less acute than those of other areas.
- The rates of grant will be reviewed with the intention of ensuring that regional aid becomes more cost effective.
- Legislation regarding the structure, geographical distribution, and rates of grant of the new policy is expected to be on the Statute Book by autumn 1984.

Mr. Tebbit has made it clear that the Government expects the ERDF to grow in real terms, and that it will therefore play an increasingly important part in the development of Member States' regional policies, including our own. The Government takes the expected contribution from the ERDF fully into account when determining expenditure on regional policy.

Aid for Special Assistance Programmes

On 18th January 1984 the Council of Ministers approved proposals for six regulations under Article 13 of the European Regiona; Development Fund Regulation, three of which will benefit the United Kingdom by enabling Community aid worth approximately £89 million to be given to a series of special assistance programmes in areas adversely affected by emp loyment losses in the steel, shipbuilding and textile sectors. The Government has been pressing for this aid for over two years. This represents a second series of measures under the non-quota section of the ERDF. These measures will provide £19m for elegible steel and £10m for shipbuilding closure areas as well as first time aid in respect of textuile closure areas. The aid will be available over a five year period once the Commission have approved the special programmes showing how it is to be utilised, which Member States are required by the Regulations to produce.

Subject to their inclusion in the special programmes, aid is available for projects for the improvement of run-down areas and the conversion of dis-used buildings into suitable new premises for small and medium sized enterprises (SMES) as well as aid to SMES through the provision of consultancy and common services, help on technical innovation and information, additional investment aid facilitating access to risk capital and the establishment or extension of economic promotion agencies. The beneficiary areas are listed below. This has been annotated to show those steel and shipbuilding closure areas which are curently receiving aid under the first series of non-quota measures.

ERDF NON-QUOTA - AID TO STEEL, SHIPBUILDING AND TEXTILE CLOSURE AREAS

Area coverage and aid involved

Steel

MECU 33 (£19M)

*Strathclyde

*Cleveland

*Clwyd

*South Glamorgan

*West Glamorgan (including those parts of Port Talbot TTWA located in mid-Glamorgan)

*Gwent

*Corby EOA

Llanelli TTWA

Assisted Areas in Durham (incl. parts of Consett located in Northumberland at Tyne & Wear)

Assisted Areas in Humberside (incl. parts of Scunthorpe TTWA located in Lincolnshire)

South Yorkshire (incl. Sheffield TTWA)

Workington TTWA

Shipbuilding

MECU 17 (£10M)

*Strathclyde

*Cleveland

*Tyne & Wear

*Merseyside

*Belfast

Textiles

105 MECU (£60M)

Northern Ireland

Assisted Areas in Tayside

The following areas in West Yorkshire:

- Bradford TTWA
- Dewsbury TTWA
- Halifax TTWA
- Huddersfield TTWA
- Keighley TTWA
- Todmordon TTWA

The following areas in Lancashire:

- Accrington TTWA
- Blackburn TTWA
- Burnley TTWA
- Lancaster TTWA
- Nelson TTWA
- Rossendale TTWA

The following areas in Greater Manchester:

- Ashton under Lyme TTWA
- Bolton TTWA
- Bury TTWA
- Leigh TTWA
- Oldham TTWA
- Rochdale TTWA
- Wigan TTWA

*included in first series of Non-Quota measures adopted by The Council of Ministers on 7 October 1980.

Robin Butler

With the Compliments

of

D J S DUNCAN

4 May 1984

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone: Direct Line 01-212 7189
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a/PC

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CONFIDENTIAL

4 May 1984

A.L.C. 8/5

p.a.

M Eaton Esq
Legal Adviser
Foreign and Commonwealth Office
Downing Street
London SW1

COMMUNITY BUDGET : 1983 UK REFUNDS

Michael Saunders sent me a copy of his letter of 12 April to Robin Butler, and subsequent papers including your long minute to Fairweather and Wall's minute of 27 April to you with papers annexed. (I have also received through the PS network Bone's letter to Coles of 2nd May.)

The Lord Advocate has of course a continuing interest in this matter and attended the Cabinet meeting on 22 March at which the advice which the Attorney General and he had previously given was under discussion. (He was unfortunately not able to attend the Cabinet on 29 March). Since it appears that the Foreign and Commonwealth Secretary will again be seeking Law Officers advice on this matter, I shall be obliged if you will have any other papers copied to us so that we may brief the Lord Advocate.

Copied to Butler and Saunders.

D J S DUNCAN

CONFIDENTIAL

Euro Pol
Budget Pt 24

cc Master

JSG

SUBJECT

file bc: Sir P. Cradock

10 DOWNING STREET

From the Private Secretary

4 May 1984

EC BUDGET

The Prime Minister rang Chancellor Kohl at 1800 hours this evening to give him an account of her discussions with the President of France earlier in the day. As the Chancellor was at his home interpretation was provided by his wife (I understand that Mrs. Kohl was a professional interpreter).

The Prime Minister began by complimenting the Chancellor on the lecture which he had delivered at Oxford on Wednesday 2 May. She then said that she had had a fairly lengthy talk with President Mitterrand about both the EC Budget problem and the London Economic Summit.

With regard to the former, she had explained that she wanted a settlement to be achieved as soon as possible and preferably by the time the European Election campaign began. There had been considerable discussion of the detail of the system for future financing and there had been some discussion of figures. President Mitterrand had explained the difficulties which he was having with other EC partners, for example, the Prime Ministers of Greece and Italy. Eventually he had agreed that M. Dumas should make contact with Chancellor Kohl and Herr Genscher to see if a budget settlement could be agreed between Britain, France and Germany, following which the agreement of other EC member states would be sought.

With regard to the Economic Summit, she had described to President Mitterrand Chancellor's Kohl's wish that there should be a statement on democratic values and a further statement on international terrorism. President Mitterrand had viewed both of these ideas favourably.

The Prime Minister said that she had been quite pleased with the talks which had taken place in a good atmosphere, indeed in an atmosphere almost as friendly as the talks she had had with Chancellor Kohl on 2 May.

Chancellor Kohl commented that he was glad to hear this account. Presumably M. Dumas would make contact with him in Bonn on Monday. He had much enjoyed his visit to Chequers and to

/ Oxford

Oxford. The Prime Minister concluded the conversation by saying that the Chancellor's visit had been very successful.

I am sending copies of this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Roger Bone, Esq.,
Foreign and Commonwealth Office.

NET CONTRIBUTIONS (-) AND RECEIPTS (+) BY MEMBER STATE

(Allocated budget) million ecus

I. Net positions before UK refunds	1975	1976	1977	1978	1979	1980	1981	1982 (provisional)
Belgium/Luxembourg	+135	+346	+329	+337	+610	+439	+515	+510
Denmark	+237	+294	+293	+381	+380	+327	+279	+294
Germany	-1007	-1054	-1467	-597	-1430	-1526	-1684	-2085
Greece	--	--	--	--	--	--	+173	+698
France	+35	+58	-310	-371	-78	+431	+576	+14
Ireland	+175	+158	+212	+326	+545	+650	+582	+721
Italy	+40	+248	+294	-334	+534	+737	+788	+1586
Netherlands	-27	+222	+88	+41	+288	+454	+239	+302
United Kingdom	+104	-90	+126	-228	-849	-1512	-1419	-2040
[Residual]	[+308]	[-179]	[+435]	[+445]	[--]	[--]	[--]	[--]

II. Net positions after UK refunds	1980 As expected at time of 30 May agreement	1981* As expected at time of 30 May agreement	1980 Actual	1981 Actual	1982 Provisional
Belgium/Luxembourg	+709	+846	+377	+441	+447
Denmark	+389	+523	+294	+242	+262
Germany	-1623	-1836	-1957	-2185	-2442
Greece	--	--	--	+161	+682
France	-335	-421	+81	+139	-366
Ireland	+524	+656	+639	+568	+708
Italy	+598	+589	+527	+549	+1373
Netherlands	+347	+463	+376	+94	+245
United Kingdom	-609	-730	-337	-9	-883

Source: Commission

As the residuals show, the figures for 1975 to 1978 are unsatisfactory, but they give some guidance as to the orders of magnitude; the figures for 1982 remain subject to revision.

* These figures give rise to a residual of -90, reflecting a last-minute revision to the United Kingdom figure which the Commission made without revising the figures for other member states.

REFUNDS AND NET CONTRIBUTIONS 1985-1988

(All figures in million ecu)

Year	Unadjusted Net Contribution	System to give 1250 million ecu refund in 1983 (95% compensation rate)			System to give 1250 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1520	66	790	1518	66	792
1986	3090	2208	71	882	2176	70	914
1987	3390	2434	72	956	2397	71	993
1988	3530	2505	71	1025	2471	70	1059
Total	12320	8667	70	3653	8562	69	3758

Year	Unadjusted Net Contribution	System to give 1100 million ecu refund in 1983 (95% compensation rate)			System to give 1100 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1342	58	968	1340	58	970
1986	3090	2015	65	1075	1983	64	1107
1987	3390	2226	66	1164	2189	65	1201
1988	3530	2280	65	1250	2246	64	1284
Total	12320	7863	64	4457	7758	63	4562

Year	Unadjusted Net Contribution	Davignon Proposal (with marginal compensation of 77% up to 0.4% of GDP and 90% thereafter)			Davignon Proposal modified so that compensation of 80% up to 0.33% of GDP with 90% compensation thereafter		
		Refund	% Refund	Adj. Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1283	56	1027	1333	58	977
1986	3090	1866	60	1224	1979	64	1111
1987	3390	2064	61	1326	2185	64	1205
1988	3530	2107	60	1423	2238	63	1292
Total	12320	7320	59	5000	7735	63	4585

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

A.J.C. 3/5

p.a.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
SW1 P3AG

3 May 1984

Dear Nigel

COMMUNITY BUDGET 1984: COMMISSION PROPOSAL FOR ADDITIONAL FINANCE IN EXCESS OF THE 1 PER CENT VAT CEILING

I am broadly content with the tactics suggested in your minute to Geoffrey Howe.

There are however two points which I would like to make. The first is that, while tactically we will wish to argue for examination of savings and deferrals, I believe that it would be counter-productive for us to seek to reopen the outcome of this year's price fixing. I fear that the identification of "genuine savings", as opposed to deferrals, will yield small amounts only. While my Department will look again at the scope for savings and deferrals, I think that we have to consider carefully how we handle this. My statement in the Council minutes made it clear that we expect the Commission to take the lead in keeping within the financial provision and this remains our view. Secondly, while national financing may be to our budgetary advantage we will, as the paper indicates, need to examine the problems that it would raise. But, more fundamentally, if the UK were to advocate national financing it would be seen by other Member States to be an attack on one of the main principles, financial solidarity, on which the Common Agricultural Policy rests. Open advocacy of such a course would risk the French using this against us in the run up to the June Summit and we could antagonise

/other countries, ...

other countries, including the Federal Republic of Germany whose continued support is important in opposing an oils and fats tax and other methods of raising revenue by the back door.

Subject to these points, I am content with the line proposed.

Copies of my letter go to members of OD(E), the Lord President, the Lord Privy Seal and to Mr Coles (No 10) and Mr Williamson (Cabinet Office).

Yours Ever

Michael

MICHAEL JOPLING

CONFIDENTIAL

AJC ✓ 5/v

cc/k

(2)

Prime Minister

A preliminary view on the legal position.

A.J.C. 2/5.

Foreign and Commonwealth Office

London SW1A 2AH

2 May, 1984

Dear John,

Community Budget and United Kingdom Refunds

Thank you for your letter of 16 April asking for further advice about the nature of the Community's obligation to pay us our refunds by 31 December.

Our Legal Advisers have consulted the Law Officers' Department and Treasury Solicitors. Their joint view is that it is highly uncertain that the Stuttgart conclusions on UK refunds can be regarded as a binding agreement in Community or international law and that, while we might be able to bring a case before the Court, our prospects of success would be slight.

Our refunds were agreed by Heads of Government. Our entitlement to them is not disputed by Member States, even those who are making their agreement to the necessary regulations dependent on the outcome of the post-Stuttgart negotiations. It is therefore clear that we shall get the refund once agreement in the negotiations is reached. It is not clear that we should be able to rely on the strength of our legal case should such an agreement not be reached.

On the basis of the work already done, Sir Geoffrey Howe is now asking the Law Officers for their formal advice so that Ministers will have an authoritative view on the legal position.

I am copying this letter to the recipients of yours and to the Private Secretary to the Lord Advocate.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

Euro-Pol: Budget Pt 24

Ref. A084/1299

PRIME MINISTER

Cabinet: Community Affairs

You may like to inform Cabinet of the Community aspects of your talks with the Federal German Chancellor on 2 May.

2. The Foreign and Commonwealth Secretary will report that Ministers have reached agreement on how to respond to the Commission's proposals for dealing with the expected shortfall of 2.7 billion ecu in the 1984 budget. The Commission had proposed that member states should provide a 2.3 billion ecu interest bearing loan this year which would be repayable from 1986. The Chancellor of the Exchequer and the Foreign and Commonwealth Secretary have agreed with colleagues that the United Kingdom's aims should be to probe the Commission's figuring and to press for a thorough examination of the forecasts; to emphasise that it is not a question of finding additional funds but of securing savings; and to avoid any conclusion on the Commission's proposals until acceptable solutions have been agreed on budgetary imbalances and financial discipline. The Commission's proposal, being made under Article 235 of the Treaty, requires unanimity.

3. You are having a working lunch with the French President on 4 May, when you will wish to determine whether there is any readiness on his part to reach a budget settlement before the European election campaign gets under way or whether it will have to be taken up again at the European Council in June. The Agriculture Council meets on 7-8 May and the Transport Council on 10 May.

RtA

ROBERT ARMSTRONG

2 May 1984

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AJC

(2)

Prime Minister

To be aware of the line we are taking (para. 3 below).

A.J.C. 2/5.

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

MA

FOREIGN AND COMMONWEALTH SECRETARY

COMMUNITY BUDGET 1984: COMMISSION PROPOSALS FOR ADDITIONAL FINANCE IN EXCESS OF THE 1 PER CENT VAT CEILING

As you know, the Commission put forward a proposal just before Easter inviting member States to contribute a loan of 2.33 billion ecu to bridge the gap between what they argue is needed to finance CAP expenditure in 1984 and the 16.5 billion ecu available within the Community Budget and the 1 per cent VAT limit. This proposal (which would require unanimous agreement of all member States) is now under discussion in the relevant Working Groups in Brussels. I understand that it will be further discussed by COREPER (Deputies) on Friday this week and then go forward for a first discussion at the Foreign Affairs Council on 14-15 May.

2. I am attaching below a note by my officials which analyses the Commission's proposal and recommends what line we should take in response to it. I understand that this note has been discussed with, and its conclusions agreed by, officials in other interested Departments.

3. The conclusions to the note are in paragraph 21, but you may also like to look particularly at paragraphs 13-16, which set out our objectives and tactics for the forthcoming discussions in Brussels. To summarise briefly, our objective is to ensure that:-

(i) no conclusions are reached on the Commission's supplementary financing proposals until there is full agreement on both the substance and implementation of acceptable solutions to the problems of budgetary imbalances and budgetary discipline, and on the payment of our 1983 refunds;

(ii) as far as possible the 1984 and, if necessary, the 1985 "financing gaps" are bridged by genuine savings and deferment of agricultural expenditure;

(iii) if in the last resort, and always provided we have secured the full agreement referred to in (i) above, the need for some element of supplementary financing in 1984 is conceded, this should impose the least possible cost on the UK.

4. Our tactics therefore must be to protract the discussions for as long as possible and to insist on a stringent examination of both the Commission's figures and underlying assumptions and the scope for economies and deferment of agricultural spending. The present signs are that we may get some support for this approach - at least for a little while - from some other member States, notably Germany and the Netherlands.

5. The note also suggests that further work is needed in two areas. First officials should examine in more detail what can be done to achieve agricultural savings. Second, there is the possibility that, if there is deadlock on the Commission's loan proposal, other member States may be tempted to go for agreement on alternative methods of bridging the financing gap (eg by deferment of the 10 per cent "own resources" refunds), by qualified majority voting. At present it looks doubtful whether any such attempt would succeed, but we need to consider how best we could protect our position if it were made.

6. If you are content with these conclusions they can form the basis for the line to be taken in COREPER this week and at the Foreign Affairs Council on 14-15 May. In view of the discussions which have already taken place at official level I suspect that there is no need for a meeting to take the paper. Perhaps, however, other colleagues

could let you know if they wish to have a discussion, or if they have any other comments on the recommendations in the note. It would be helpful to have such comments in the course of the next two days in advance of the COREPER discussion on Friday this week.

7. Copies of this minute go to members of OD(E), the Lord President the Lord Privy Seal and to Mr Coles (No 10) and Mr Williamson (Cabinet Office).

David Peretz

N.L.
1 May 1984
(Approved by the Chancellor and signed in his absence)

CONFIDENTIAL

COMMUNITY BUDGET 1984: COMMISSION PROPOSALS FOR ADDITIONAL FINANCE IN EXCESS OF 1% VAT CEILING

Note by HM Treasury

INTRODUCTION

1. The EC Commission estimate that potential expenditure on the CAP this year will exceed provision in the 1984 EC Budget by 2.13 billion ecu and that in addition there will be a need for other expenditure of 100 mecu and a shortfall of revenue from agricultural levies of 0.5 billion ecu. They estimate that in the absence of either economy measures or of the provision of additional financing, budget appropriations to pay for the CAP will be exhausted in mid-November. To meet this position the Commission have now proposed that Member States should agree to provide supplementary finance of 2.333 becu by a loan in 1984 which will be interest bearing and will be repaid on or after June 1986. The figure takes account of savings of 350 mecu in other expenditure already identified. The draft Regulation which the Commission have circulated with a paper justifying the proposal is at Annex A. This is already scheduled for discussion by the Budget and AGRIFIN Committees in Brussels on 27 and 30 April respectively. The outcome of the former will be reported orally to EQS.

2. The Government's present position, as stated by the Minister of Agriculture at the price fixing, is that CAP expenditure in 1984 must be accommodated within the existing budgetary provision and that, if budgetary problems arise in 1984 (or 1985) the Commission should take the necessary steps to reduce expenditure to the permitted level. The Government now needs to decide in detail what its objectives and tactics should be in further discussions of the Commission proposal in these Committees and

in COREPER and in the Foreign Affairs Council on 14/15 May.

ANALYSIS OF COMMISSION PROPOSALS

3. The 1984 budgetary situation and the Commission's proposal together with other options which might arise in discussion are analysed in the more detailed note by officials at Annex B. The main conclusions flowing from this analysis are set out in paragraphs 5 to 15 below.

(a) The Budgetary Situation

4. We accept (paragraphs 2 to 10 of Annex B) that in the absence of genuine economy measures or of additional financing the Commission would be left with a potential "financing gap" of more than 2.7 becu this year. The savings in non-agricultural expenditure proposed by the Commission are only 350 mecu, not even enough to offset the shortfall in levies and duties. So by mid-November Community money for agricultural will run out as budgetary appropriations are exhausted.

5. If by that time no agreement has been reached on either savings or on supplementary finance there will probably be strong pressure from other members to continue payments to farmers under the common agricultural policy and to finance these nationally where they fall. They are likely at the same time to demand a firm undertaking that expenditure will be reimbursed from future Community budgets when own resources have been increased.

6. A demand for national financing and subsequent reimbursement would raise a number of complex legal issues. These are dealt with in some detail in paragraphs 24-26 of Annex B and in EQS(84)11. Our assessment, however, is that if pressed, the Commission would probably authorise national financing towards the end of the year to avoid difficulties for farmers and traders. The questions of reimbursement and the impact on the UK's net contribution are dealt with in paragraph 12 below.

7. In the absence of national financing and genuine savings the Commission would have to find ways of deferring obligations into

1985 (when they would add to the already considerable difficulties of drawing up a budget within the 1% VAT ceiling), or Supplementary Community finance would have to be found. It is not clear to what extent the expenditure can be deferred. In principle there is considerable scope for deferment of Community expenditure, although in part this would be by building up intervention stocks, at Member States' expense. However, a proportion of the outstanding CAP expenditure may consist of pre-fixed export refunds or MCA subsidies which under Community regulations have to be paid within fixed time-limits. The options available without an increase in own resources are distinctly limited.

(b) Commission's financing proposals

8. The Commission's decision to opt for a regulation under Article 235 of the Treaty of Rome is in our view open to legal challenge, (paragraphs 27 and 28 of Annex B) as well as being objectionable in terms of under UK objectives. The Commission have provided a background paper setting out the reasons for their conclusion that savings in the budget are only small and that expenditure on agriculture cannot be constrained to 16.5 becu in 1984. They seek authority to call on member states to provide advances upto a maximum of 2.333 becu in 1984. Member states shares in these advances would be the same as their VAT shares, 20.040% for the UK. The advances would be subject to interest and would be repaid in 8 six-monthly instalments starting in June 1986. It is clear that repayment would be made from future budgets within the ceiling of own resources at the time. This must assume that unless the growth in agricultural guarantee expenditure has been drastically curtailed there has been agreement on an increase in own resources.

9. As stated in paragraph 28 of Annex B the legal basis of the Commission's proposal is Article 235 of the Treaty. Since a regulation under this article requires unanimity, the UK could block its acceptance even if it were supported, as is likely, by all other member states. As in the case of the 1% VAT ceiling itself, our ability to veto the Commission's proposal is an important lever in our hands in the continuing negotiations on the future financing of the Community.

10. There is some risk that, faced with a UK veto on the Commission proposal, other member states may try to bring forward other proposals for raising additional finance, which they may claim can be adopted by qualified majority voting. Possibilities include:-

- deferment into 1985 or later of the 10% own resources rebates paid in respect of the costs of collecting customs duties and levies;
- increased coresponsibility levies;
- the oils and fats tax.

11. These possibilities are examined in detail in paragraphs 22(i), 33-37 and 38 and 39 of Annex B. The conclusion drawn at this stage is that either unanimity is required or that for other reasons these are unlikely to be passed or accepted by other Member States as solutions. But the possibility cannot be excluded that, if the Commission proposal is blocked, other Member States may argue that some form of financing, in particular through deferment of the 10% own resources supplementary rebate, can be voted through by qualified majority in the budgetary procedure. Accordingly, further work is needed on how we should respond if any such attempt is made and how best we could resist it.

(c) Effect on the UK's Net Contribution

12. The Commission's proposal for a loan if adopted would add to UK's public expenditure as described in paragraph 30 of Annex B. The net addition could be of the order of 245 mecu (£160 million) in 1984. The refund on offer to us in respect of 1984 is, however, a lump sum of 1000 mecu. Unless, therefore, we could get a specific agreement that the 245 mecu was eligible for budgetary relief under the corrective mechanism in 1985 or 1986, the budgetary burden of our contributions to the Community Budget would be increased by the full amount with no compensation for this additional burden in the 1985 budget by way of budgetary refund for 1984. It therefore compares unfavourably with the alternatives of deferment of expenditure into 1985 or national financing of expenditure where it arises. In the case of deferment the expenditure would enter into the calculation of our refunds in the first year of the

budgetary corrective mechanism or if this was not in place again be caught by the own resources ceiling. National financing would be the least costly solution to this UK, provided there was no subsequent reimbursement of member states from the Community Budget in a later year. It is, however, not clear that we could prevent the Commission from declaring nationally financed expenditure as eligible for subsequent reimbursement. This point needs further legal scrutiny. National financing with reimbursement should, however, still be less costly than the Commission's proposal, since, our contributions to the reimbursement expenditure in later years would automatically enter into the calculations under the budgetary corrective mechanism.

UK OBJECTIVES

13. The Commission proposal is a way of evading the 1% VAT ceiling. To agree it would be inconsistent with the Government's position, that it is not prepared to agree to any increase in the VAT ceiling without satisfactory agreements on budgetary imbalances and budgetary discipline, and would remove from our hands an important bargaining lever in the negotiations. It would also be inconsistent both with the Minister of Agriculture's declaration at the end of the price fixing (that we expect the Community to live within the existing 1984 budgetary provision of 16.5 becu for agriculture, if necessary, by further savings and economies) and with the Government's general policy that the level of agricultural support in the Community should be constrained and agricultural spending controlled within a strict financial guideline.

14. Our objectives are accordingly to ensure that:-

(a) no conclusions are reached on the Commission's supplementary financing proposals until there is full agreement both on acceptable solutions to the budgetary imbalances and budgetary discipline questions (including the detailed texts implementing these solutions) and on the payment of our 1983 refunds.

(b) to the greatest possible extent the 1984 and 1985 "financing gap" is bridged by genuine savings in agricultural expenditure or to the extent that these are insufficient by deferring such expenditure. Agricultural spending for later years must be consistent with the strict financial guideline. Annex B (paragraphs 17 to 19) sets out some possible methods of making agricultural savings, but these need to be supplemented by a more detailed study by the Ministry of Agriculture.

(c) Provided satisfactory agreements are reached on budgetary imbalances and budgetary discipline, it may be necessary, as part of the deal, to consider conceding some element of supplementary financing. Any resulting additional budget burden for the United Kingdom would have to be taken into account under the corrective mechanism in 1986 or later years, and we should also seek to insist on a firm agreement to claw back any 1984 addition in later years under the financial guideline. One way of providing supplementary finance for the CAP wuld be a period of "national financing" of Guarantee expenditure without reimbursement from the Community Budget. In principle this approach could be to our budgetary advantage: we would only finance expenditure arising within the UK. On the other hand other Member States would be likely to resist the idea of a period of national financing and further study is necessary of the practical problems in this approach (for example the risk of trade diversion)l.

TACTICS

15. We should leave our partners under no illusion that there can be any question of our agreeing to provide additional finance in the absence of full solutions to the budgetary imbalances and budgetary dicipline issues. This has already been made clear by the Prime Minister to the House of Commons in answer to questions on 26 April.

16. But it is tactically in our interest to prolong the discussions on the Commission's proposal for as long as possible. We should therefore take the line that the detailed examination of the

Commission's proposal by the appropriate expert group (the Budget and AGRIFIN Committees) should not be skimped and rushed. They needed to probe:

- the Commission's forecasts of its revenue availability and expenditure requirements for the rest of 1984 (and possibly 1985).
- the scope for bridging the gap by fresh CAP savings and economies (for example those listed in Annex B) and for deferring expenditure into 1985.
- the implications for the operation of the financial guideline for agricultural spending.
- the technical difficulties and objections of the Commission's proposal, without prejudice to member states' conclusions.

We should seek support from any potential allies (the Germans and Dutch) for this approach.

17. In these preliminary examinations we should, as appropriate, draw attention to our doubts about the legality of the proposal and to its consequences for the UK's budgetary burden. We will have to insist on the need for unanimity on any provision for additional financing and keep the Commission up to the mark on this (see paragraphs 8 and 9 above).

POSSIBLE REQUESTS FOR CASH ADVANCES OR USE OF OVERDRAFT

18. Quite apart from their proposal for raising extra money above the 1% VAT ceiling, the Commission may find that, within the total already provided within the 1984 Budget, they may run into a cash shortfall and so be obliged to request either advances of customs duties and levies, (as they nearly did in March) and/or an overdraft facility under Articles 10(2) and 12(2) respectively of the Own Resources Regulation 2891/77. At present the Commission view is that they can get through to July without such recourse, but that thereafter either or both may be needed.

19. Advances under Article 10(2) would require the approval of a Supplementary Estimate by the House of Commons. A request for

an overdraft would be an obligation which could be met from the Consolidated Fund without specific Parliamentary approval. Legal advice is that the request would constitute an obligation in Community law.

20. A decision on whether to comply with any such request could only be taken in the particular circumstances at the time. Either form of request could clearly be politically embarrassing in the absence of any overall agreements on the EC's future financing arrangements.

CONCLUSIONS

21. The Committee is recommended:

(a) to endorse the negotiating objectives set out in paragraph 14 and to agree that we should respond to the Commission's proposals for raising extra finance along the lines set out in paragraphs 15-17.

(b) to agree that the Treasury and MAFF should consider and put forward to Ministers a list of ways in which agricultural expenditure could be reduced or deferred, to be drawn on as appropriate in discussion of the Commission's proposals.

(c) to note the legal advice that the Commission's proposal requires unanimity in the Council of Ministers, but to invite officials to study urgently the risk that deferment of the 10% own resources rebate or other alternatives could be implemented by qualified majority (paragraph 11 above);

(d) to note the possibiity that the Commission may anyway need to request advances of own resources or an overdraft facility (paragraphs 18-20 above).

Annex A.

Proposal for a

Council Regulation (EEC, EAEC) introducing supplementary measures to cover budgetary requirements in 1984

Whereas, having regard to the ultimate destination of the funds required, the Community should approach the Member States direct;

HAS ADOPTED THE PRESENT REGULATION:

Article 1

The Member States shall make a sum of 2 333 million ECU available to the Commission on the terms indicated below. These funds shall be used exclusively to provide supplementary cover for budgetary expenditure in 1984.

Article 2

The Commission shall apply to all Member States, who shall contribute to the proposed operation in accordance with their share of the Community's uniform VAT base for 1984, viz:

Germany	28.75
Belgium	3.45
Denmark	1.99
France	22.78
Greece	1.58
Ireland	0.86
Italy	15.32
Luxembourg	0.25
Netherlands	4.98
United Kingdom	20.04

Article 3

The Commission shall call on these funds as budgetary requirements arise and before 31 December 1984.

Article 4

The funds shall be made available to the Member States on the date indicated by the Commission. Interest shall be payable from that date at the market rate for a comparable loan of the same duration.

Article 5

The funds shall be repaid in eight equal six-monthly instalments beginning on 30 June 1986.

Article 6

The Council, acting by a qualified majority on a proposal from the Commission, shall lay down detailed rules for implementing this Regulation.

Article 7

This Regulation shall enter into force on the day following its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

ANNEX B

EUROPEAN COMMUNITY BUDGET FORECAST 1984: EXHAUSTION OF OWN RESOURCES

This paper is an assessment of the budget crisis facing the Community because expenditure is outstripping revenue and of the measure proposed by the Commission in COM (84) 250 final to deal with the emerging deficit. The paper also covers other measures which might be put forward.

Size of 1984 deficit

2. The table at Annex B shows the order of magnitude of the problem as it is likely to emerge month by month. As the commentary attached to the table makes clear the assessment is derived from figures provided by the Commission. In summary the shortfall described by the Commission is:

	mecu
FEOGA guarantee	2,131
Other expenditure	100
Reduction in levies and duties	550
Offset by lower 10% refunds for cost of collection	- 55
	2,726

FEOGA guarantee expenditure is the most significant component of the budget and the Commission have described why the budget provision of 16.5 becu will prove to be substantially short of what would normally be needed to cover existing policies. We shall need to probe this.

The nature of the problem

3. The rules governing the Community budget have Treaty status and the problem arises because of the terms of Article 199 of the Treaty of Rome:

"All items of revenue and expenditure for the Community, including those relating to the European Social Fund, shall be included in estimates to be drawn up for each financial year and shall be shown in the budget.

The revenue and expenditure shown in the budget shall be in balance."

4. The expenditure side of the budget is broken down into payment appropriations which may be spent for a specified purpose. When the designated limit for particular elements is reached no further payments can be made even if there is spare cash available. Appropriations can only be increased by formal transfers from other parts of the budget or by a supplementary and amending budget to which the rules of budgetary balance also apply.

5. FEOGA guarantee advances are normally made to member

states on about the 20th of each month so that intervention agencies can pay farmers during the following four weeks. In recent months at least 50% of these advances has been postponed to the beginning of the following month. On the basis of the figures in Annex C the total requirements for advances would be 16.781 becu by 20 October, 281 mecu more than the budget provision.

6. Once the appropriations limit of 16.5 becu has been reached no further advances can be paid, even if there is cash available. The forecast advance of 1532 mecu in October (or the beginning of November if phased) would therefore have to be reduced accordingly, making it necessary for the intervention agencies to stop payment to farmers towards the middle of November.

7. A further constraint on expenditure is the availability of cash. Even if the appropriations provision is not exceeded there may from time to time be imbalances between the flow of funds and the timing of expenditure. So far this year the Commission have dealt with the cash problem by phasing agricultural guarantee advances. Instead of paying a full month's advance around the 20th of each month a substantial proportion has been postponed until the beginning of the following month when VAT own resources are paid by member states. This expedient may serve for a further month or two.

8. The Commission might also, as they have done in the past, make use of advances of own resources under Article 10(2) of the Own Resources Regulation. But since these do not in our view constitute an obligation it is necessary for the government to seek Parliamentary authority through the supply procedure. The Treasury Committee and individual Members have expressed strong opposition to such advances and passage of any future Supplementary Estimate is likely to be a stormy one. The Commission could also ask member states to provide temporary overdrafts under Article 12(2) of the same regulation. We are advised by our lawyers that payments under this Article constitute an obligation and therefore be made direct from the Consolidated Fund. But the circumstances giving rise to an overdraft would make a Ministerial announcement to the House essential and the Commission's decision to ask for an overdraft would need to be made in good time to allow this.

9. The current problem is <u>not</u> however simply one of a temporary cash imbalance. Unless measures are taken to reduce the entitlements of farmers and traders in 1984 the liabilities will either have to be carried forward to the 1985 budget or ways found of increasing <u>appropriations</u> in the 1984 budget as well as the cash to finance them.

10. There are two main ways of coping with the FEOGA guarantee problem. First, expenditure in 1984 could be contained by savings or economies, or expenditure could be deferred beyond 1984. Second, steps could be taken to increase the funds available for agriculture. The Commission have decided on the latter and on 17 April put forward a proposal for a Council Regulation. This would make it obligatory for member states to put at the disposal of the Commission a total amount of 2,333 becu for the 1984 budget. Member states individual shares would be equal to VAT shares. Advances would be subject to market rates of interest and would be repaid in 8 equal half-yearly instalments on or after 30 June 1986. The Commission propose that the detailed implementing regulations would be agreed by qualified majority voting.

Government objectives

11. The Community's need for supplementary finance for agriculture at a time when the ceiling of own resources revenue has been reached gives the Government a lever for attaining UK objectives in the main negotiation. Our main aims are to achieve a satisfactory outcome on budgetary discipline, particularly in relation to the agricultural guideline; to secure an agreement for reducing budgetary imbalances and satisfactory arrangements for 1983 and 1984 refunds; and to ensure that any interim arrangement for agriculture does not lead to an increase in the calculation of our future

net contribution.

12. If we are to make the maximum use of this lever it will be essential to:

(i) only agree to consider the proposals when satisfaction has been achieved in the negotiations;

(ii) put emphasis on minimising agricultural expenditure, in accordance with statements made by UK Ministers in Brussels. (See para 15 below).

(iii) ensure that the solution with the least cost to the UK is adopted. National financing would be more favourable than the Commission proposal. In any solution involving the Community budget we should need to ensure eligibility for refunds in respect of subsequent years.

AGRICULTURE

The problem as seen by the Commission

13. The provision for FEOGA guarantee expenditure in the 1984 budget is 16.5 becu. The Commission estimate that on present trends this could be some 2 becu less than is needed to finance the levels of price support recently agreed by the Agriculture Council. Against this background the Commission have stated their intention of seeking supplementary financing from the Member States to fund the 'hump' in agricultural

expenditure in 1984.

14. The Commission have presented the problem as in part a temporary one - financing a 'hump' of expenditure while the CAP 'reforms' take effect. But it is far from clear that we are dealing with a temporary problem rather than the latest manifestation of the pressure for increased agricultural spending within the Community. Over half of the 2 becu excess expenditure which the Commission predict appears to flow from production (and thus expenditure) having increased more rapidly in sectors such as wine, olive oil, milk, beef and fruit and vegetables. Except in the case of milk the decisions recently taken by the Agriculture Council will not in themselves serve to turn round expenditure on the CAP.

The Government's Objectives

15. The Government's position in respect of the immediate pressures on agricultural spending remains as stated by the Minister of Agriculture at the price-fixing Council on 30-31 March: viz that CAP expenditure in 1984 must be accommodated within the existing budgetary provision and that, if budgetary problems arise in 1984 (or 1985), the Commission should take the necessary steps to reduce expenditure to the permitted level.

16. The rest of this section of the paper concentrates on how that objective is to be achieved in respect of 1984. But it is necessary also to bear in mind the Government's continuing objective of constraining the level of agricultural support in the Community and keeping the rate of growth of agricultural spending as far as possible below the rate of growth of the Own Resources base. That objective implies:

(a) a series of tough price fixing settlements over a number of years with significant price reductions in real terms, to build on the limited progress achieved in 1984.

(b) the need to ensure that FEOGA Guarantee expenditure is consistent with the financial guideline over the period 1984 to 1986.

<u>Scope for containing expenditure to 16.5 becu in 1984</u>

17. The Commission have scope for achieving economies on their own initiative through the CAP Management Committee system. The second sentence of paragraph 17 should be replaced by: "An illustrative list of the sort of options available to them is as follow."

(i) <u>defer payments into 1985</u>

Given that traders are likely to anticipate such action this year, MAFF estimate that direct action on deferments is unlikely to yield more than 500 mecu.

(ii) Level of intervention stocks

The Commission appear to envisage a programme to reduce the level of intervention stocks, particularly of milk products and beef, lasting over a number of years and beginning in 1984 at a cost of 150 mecu. It is not clear why such a disposal programme should be initiated this year when the budgetary situation is so critical; and there may in addition be scope for some increase in intervention stocks and thus significant reductions in expenditure on other forms of market support.

(iii) introduce tendering in all sectors for export refunds

The Commission have proposed the extension of the tendering system to a number of sectors where refunds are at present paid on a flat rate basis fixed some time in advance. The detailed implications for each sector need to be considered, but this approach may yield some modest genuine savings (as opposed to postponed expenditure) by ensuring the most cost effective use of refunds and by giving the Commission more control over the rate of expenditure. This action would have to be accompanied by restrictions on prefixation of the existing fixed rate refunds.

(iv) reduce rates of export refunds and disposal aids

A more drastic option than (iii) would be to reduce the rates of refunds and disposal aids to make them less attractive or, in the extreme case, to stop them altogether.

(v) <u>suspending discretionary market management measures</u>

Some management measures such as certain wine distillations, and some intervention measures for cereals and beef, are introduced at the discretion of the Commission.

(vi) <u>increase delay in payments for intervention purchases</u>

There is probably little scope for increasing these delays following the action taken earlier this year the delay is now about 4 - 5 months. The savings to the Community budget would in any case be fairly small since the initial costs of intervention fall on Member States' budgets.

(vii) <u>reduce payments to the Member States in respect of intervention costs</u>

There is probably some scope for reducing compensation for financing and technical costs.

18. Three of these measures (ii, iii and iv) involve reducing the attractiveness or availability to producers and traders of immediate subsidised export or other

subsidised disposal as compared with intervention. Their effect is thus:

(a) to build up intervention stocks;

(b) in so doing to shift, for a period, the burden of financing the CAP from the Community Budget to Member States' budgets (vii also has this effect);

(c) to postpone Community Budget expenditure until intervention stocks are run down. (There are of course certain payments from FEOGA to Member States in respect of the storage and interest costs of intervention).

Measures of this sort are therefore ways of postponing the cost of the CAP to the Community Budget. They are inferior to 'savings' resulting from reductions in support levels (eg explicit price reductions or implicit price reductions such as those which measures i, v and vi would produce).

19. On the other hand for the United Kingdom saving the Community Budget money by increasing intervention stocks could be less unattractive than for most other Member States. With the possible exception of barley,

the UK share of intervention stocks in all commodities is likely to be substantially less than our current marginal share of additional Community expenditure. Postponing any given amount of expenditure on the CAP until such time as we have been able to negotiate an effective system for limiting the UK's marginal share of additional EC expenditure is thus to our advantage.

20. Hardly any of these measures would help towards our objective of reducing the rate of growth of the CAP expenditure in later years and thus of keeping within the strict financial guideline for 1985 and 1986.

21. Urgent further work is required on the scope for economy measures to keep expenditure within 16.5 becu this year. MAFF should be asked to undertake this.

<u>Other Measures open to the Commission</u>

22. Should such actions not produce sufficient savings, it is open to the Commission to propose additional measures within the agricultural sector for Council decision by Qualified Majority. The main options would appear to be:-

(i) <u>new or increased co-responsibility levies</u>

Further action in the milk sector seems unlikely following the recent decisions on the superlevy. Levies in other sectors would take time to set up and might not yield much revenue in 1984. At a rough calcualtion and as an example a 1% levy on cereals might yield 300 mecu in a full year.

(ii) <u>reduction or suspension of production aids</u> (2.5 becu in 1984 budget).

This would effectively unravel the price fixing compromise.

(iii) <u>virement from the FEOGA guidance section</u>

MAFF estimate that the maximum saving from this course might be about 200 mecu.

<u>ASSESSMENT</u>

23. It is unlikely that other member states will be willing to agree to any courses of action which would seriously reduce the level of support for their farm producers. If that is the case, there will most likely have to be recourse to increased intervention and deferment of payments into 1985. It is not clear whether these by themselves will suffice to cover the whole of the 1984 overhang. Part of the 2 billion ecu may consist of legally contracted commitments to traders

eg pre-fixed export refunds and MCAs) which member states cannot or will not defer. But if no alternative sources of finance can be made available, the Commission would not be able to advance money to the intervention agencies in the member states for the purpose of meeting these commitments.

24. This is effectively what happened for a short period at the end of 1983. If advances were suspended for longer than a few days, member states would be faced with the difficult choice of whether to allow the CAP to break down for lack of funds or to make national finance available in some form to allow the intervention agencies to continue making the payments.

25. Member states are likely in this situation to give way to strong pressures from their farmers for such payments to be made and to insist on reimbursement from subsequent budgets to preserve the principle of 100% Community financing of the CAP. As pointed out in EQS(84)11, there are divided views among the Community's experts as to whether national financing in these circumstances is permitted at all or, contrarywise, is an obligation which Member States have to meet.

26. If there were an agreement that there should be a period of explicit national financing of the CAP, this would be in the United Kingdom's interest provided that there were no reimbursement of the expenditure concerned from the Community Budget, since on the assumption we could prevent trade diversion we would only have to finance the expenditure from which our own farmers benefitted. This latter conditon would, however, be difficult to negotiate, since it is not clear that the Commission could be stopped from declaring the expenditure eligible for reimbursement. Even if there had to be reimbursement from the Community Budget in 1985 or in later years, this could be financially more attractive from the UK's point of view than the Commission's proposal or other financing options discussed below, since the Community reimbursements would count as part of the allocated budget in the year in which they were made and should therefore in principle be included in the calculation of the compensation due to us under any corrective mechanism set up.

Options for additional budgetary finance

27. The Commission's proposal for increasing revenue to allow higher agriculture expenditure, which is discussed with other options below, is unacceptable

in that it represents evasion of the 1% VAT own resources ceiling. We consider that all options would entail new regulations, which would have to be agreed unanimously. The Articles of the Treaty concerned with member states' contributions to the budget do not in our view provide authority for additional finance. We also think that use of Article 235 of the Treaty could be challenged as the basis of regulations covering new sources of funds. That Article says:

"If action by the Community should prove necessary to attain in the course of the operation of the common market, one of the objectives of the Community and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the Assembly take the appropriate measures."

<u>The Commission's proposals</u>

28. The Commission's proposed regulation would be made under Article 235 of the Treaty. [Our lawyers advise that the Commission's use of this Article could be challenged on the grounds that there <u>is</u> existing provision elsewhere in the Treaty for financing the budget. The Commission might argue that the words "other revenue" in Article 4(1) of the Own Resources

Decision of 21 April 1970 justifies their case:

"From 1 January 1975 the budget of the Communities shall, irrespective of other revenue, be financed entirely from the Communities' own resources."

However, in our view this refers to existing other revenue and is not a back-handed way of allowing new resources to be created.

29. If we are to maintain credibility in meeting our major objectives as mentioned earlier we must:

(a) question the legality of the action proposed;

(b) stress the need to contain agricultural expenditure;

(c) investigate the scope for restricting legal liabilities by avoiding all new commitments and by postponing payments arising from existing commitments.

30. The financial implications of the proposal for the UK's net contribution are shown in tabular form below and compared with alternative ways of dealing with the financing problem.

ADDITIONAL UK UNADJUSTED NET CONTRIBUTION

Measure	Effect on UK unadjusted net contribution
1. Commission proposal (loan of 2.33 becu from member states) (UK share 20.04%)	Net increase in programme 2.7 of £143 million in 1984 since payment of loan (£275 million) offset by increased receipts from FEOGA (£132 million). When repayment starts, the UK will be refunded its share (which was based on the 1984 VAT) but this would be financed in later year's budgets when our VAT share will be higher giving a further addition to programme 2.7. The draft amount will depend on the interest rates to be applied between the date of the loan and the repayment the last of which will be 31 December 1989. The additional expenditure in 1984 will not score for refund in 1985 since a flat rate refund of 1,000 mecu has been proposed and practically accepted. For future years we would need to ensure that the repayment of the loan was included in the allocated budget otherwise it would not necessarily score for as part of our net contribution under the corrective mechanism as proposed.
2. Defer FEOGA expenditure to 1985	The effect on public expenditure depends on the measures taken to defer expenditure. The position in 1985 will depend on whether FEOGA takes a greater share of the budget than otherwise since the 1% VAT ceiling will still apply in 1985. On programme 2.7 there would only be an addition to our net contribution if the increased FEOGA expenditure in 1985 displaced other expenditure from which the UK derives a higher rate of return. If deferment took the method of increased intervention buying then domestic public expenditure (programme 3) in 1984 would be increased.

3. National financing with reimbursement	In 1984, programme 2.7 would be unaffected but domestic public expenditure (programme 3) would be increased by £132 million. The effect in 1985 on programme 2.7 would depend upon whether the increased FEOGA expenditure displaced other expenditure from which the UK derives a higher rate of return or whether there was further deferment into 1986. If monies were available to repay member states due to Commission savings within the 1% ceiling then one could argue that the net effect on 1985 would be to increase public expenditure by £143 million (£275 million minus repayment of £132 million). Since all this expenditure occurs on FEOGA, the amounts in in 1985 would fall as part of our net contribution to be adjusted by the corrective mechanism as proposed.
4. National financing without reimbursement	There would be no effect on programme 2.7 but domestic public expenditure (programme 3) would increase by about £132 million.
5. Borrowing on the market	Programme 2.7 would show a reduction of £132 million in respect of increased FEOGA receipts. The repayments of the loan would not count as UK public expenditure until they were repaid during the period 1986-89 near the EC budgets for those years. We would need to ensure that the repayments of these loans were included as part of the allocated budget and this might be difficult since the repayments would not be to member states but to third parties. There is therefore a risk that this extra expenditure would not be included as part of the allocated budget to which the corrective mechanism as proposed would apply. The exact amount of the additional public expenditure in UK terms would depend upon the UK VAT share in each of the relevant years together with the interest rate charged on the loan by the market.

31. We are advised that if lending by member states is made obligatory under a regulation the UK's share of loans can be made under S.2(3) of the European Communities Act 1972 direct from the Consolidated Fund or the National Loans Fund. Unlike an increase in the VAT own resources ceiling it would not need ratification by member states governments. The increase in our net contribution for 1984 would be wholly uncompensated, if other member states stick to their present offer - which we have said we are prepared to accept - of a lump-sum refund of 1000 mecu in respect of 1984. If, we could, however, get it agreed exceptionally that these contributions (less our assumed share of the 1984 expenditure) should be included in the allocated budget for the purpose of the budgetary corrective mechanism there would be an increase in UK refunds.

National contributions

32. At an earlier stage the Commission seemed to envisage increasing national contributions through a Regulation under Article 235, perhaps also citing Article 200. The latter covered financial contributions by six member states before they were replaced by own resources under Article 201. In our view the provisions of Article 200 are spent. We are advised by our lawyers

that a Regulation could not be made under Article 235 in view of the prior provisions of Article 201. The effect on the UK's net contribution for 1984 would be similar to that described in the previous paragraph.

Own resources refunds

33. The Commission had also contemplated postponing payment of own resources refunds to member states. They are unlikely to propose a regulation for this, but the implications are rehearsed below.

34. The Council Decision of 21 April 1970 made under Article 201 of the Treaty set out arrangements for replacing financial contributions from Member Sates (under Article 200 of the Treaty) by the Communities' own resources. Article 3 of the Council Decision says:

"The Communities shall refund to each Member State 10% of the amounts paid in accordance with the preceding subparagraphs in order to cover expense incurred in collection".

35. Regulation 2891/77 was made under Article 209 of the Treaty to "determine the methods and procedure whereby the budget revenue provided under the arrangements relating to the Communities own resources shall be made available to the Commissions and determine the measures to be applied, if need be, to meet cash requirements."

36. Article 9(2) of Regulation 2891/77 says:

"Each amount [of own resources] shall be entered gross. In the 30 days following notification of any entry, the Commission shall issue a transfer order in favour of the member state for the amounts corresponding to the standard refund for the expenses incurred in collection as referred to in the fifth sub-paragraph of Article 3(1) of the Decision of 21 April 1970."

The Commission may propose an amendment to this Regulation deferring repayment of amounts due for the remainder of 1984 and for the whole of 1985 until 1986. Adoption would require unanimity. The sum available (about 1 becu in a full year) would then allow FEOGA appropriations to be increased through a supplementary budget or perhaps by a budgetary transfer proposal. Even if the Commission do not themselves propose a regulation to defer own resources refunds there is a risk that a member state would take the opportunity of a preliminary draft supplementary budget to reduce or remove the provision in the 1984 budget and transfer it to agriculture. If this were done by qualified majority under the budgetary voting rules we could be outvoted. But we could challenge the legality of such action.

37. In 1984 the UK's share of own resource refunds is expected to be about 24%, higher than our VAT share. If all the refunds due for the remainder of the year were postponed our net contribution and public expenditure in 1984 would rise by 95 mecu (£55 million). When this is eventually repaid in 1986 it would be financed by extra VAT call-up. The net benefit (about 20 mecu) to the UK would artificially reduce our compensation in the year in question under any corrective mechanism. The amount available under this option would not be enough on its own to meet the Commission's revenue requirement.

Oils and fats tax

38. The Commission have proposed that the oils and fats tax should be instituted by means of a Regulation adopted by qualified majority under Article 43. We have argued that Article 43 is not an appropriate legal base for a protective and revenue raising device but have little support for that view. Whether we can continue to block the oils and fats tax therefore depends crucially on the attitude of the Germans who, with us, constitute a blocking minority. Their attitude is likely to be heavily influenced by their assessment of the effect that imposing the oils and fats tax would have on relations with the United States.

39. The oils and fats tax proposed by the Commission

(75 ecu per tonne) would raise 560 mecu in a full year. MAFF regard it as not beyond the bounds of possibility that the Commission could propose a much higher rate of levy: say 200 ecu per tonne, raising 1.5 becu annually. The Commission have so far envisaged that there would be a gap of about 7 months between Council's adopting a Regulation to impose the oils and fats tax and revenue reaching the Community budget.

Savings in other expenditure

40. Expenditure other than agricultural guarantee expenditure totals about 9 becu. The Commission have repeated their declaration to the European Parliament that they are not disposed to sacrifice non-agricultural expenditure to cover overshoots in agricultural guarantee expenditure. They have nevertheless proposed savings of 350 mecu following a "rigorous" examination of budget needs. Without better information from the Commission it is difficult to judge the scope for doing more. We need to know what proportion of the expenditure is to meet legal commitments already entered into. But even expenditure already committed can be deferred beyond 1984 and some other member states may propose transfers to agriculture if a preliminary draft supplementary and amending budget is put forward. We know that 1300 mecu from the structural funds and food aid were probably deferred from 1983 to 1984. It should

be possible to arrange a similar deferment into 1985, although this would exacerbate an already tight situation in that year.

41. Legal commitments arising from existing commitments are likely to call for increases of 20% in non-obligatory expenditure, against a maximum rate of 8.5%. It is, moreover, not in the UK interest for the Community to sacrifice expenditure on regional and social measures to increase provision for agriculture. For every £1 the UK contributes to agriculture it gets only 55p back, whereas we still get back rather more than our full contribution to the ERDF and the Social Fund. There would doubtless be opposition from other member states who benefit similarly (Greece, Italy and Ireland); and the European Parliament has said it is not prepared to see non-obligatory expenditure raided.

42. There is, however, provision for UK and German refunds of 1200 mecu in Chapter 100 (provisional appropriations) of the budget. These refunds cannot be paid until the Council have agreed the necessary Regulations and a transfer to the main part of the budget agreed by both the Council and the European Parliament. For simplicity it is assumed for the purposes of Annex C that refunds would be made in December. If, as we expect, the bulk is paid earlier the relevant end month cash deficit would have to be

increased accordingly. The cash requirement would have to be covered by advances of own resources or temporary overdrafts under Regulation 2891/77 (see paragraph 8 above). It is unlikely that the Commission would propose a transfer of unused refunds to increase agricultural payments. If they were to do so this would obviously require a strong reaction from the UK.

Other member states reactions

43. Individual reactions are likely to be mixed. On the one hand the majority of member states will not be happy to see the discipline of the own resources ceiling being side-stepped; on the other there will be domestic pressures to maintain payments to farmers by increasing expenditure.

ANNEX C

COMMISSION VIEW OF
EC CASH POSITION 1984

MECU

	EXPENDITURE					REVENUE				BALANCE	
	FEOGA Advances	Food Aid	Other Commission	Expenditure Institutions	Total	VAT	Other OR	Other Revenue	Revenue Total	Difference between Forecast Revenue and Expenditure	Cumulative-Cash Position
											+1500.0
JANUARY	3412.5	72.2	227.4	29.3	3741.4	1171.0	792.3	20.4	1983.7	-1757.7	-257.7
FEBRUARY	1722.9	37.7	558.2	33.0	2351.8	1255.9	992.2	8.5	2256.6	-95.2	-352.9
MARCH	1436.9	49.2	400.0	57.0	1943.1	1212.9	839.6	8.5	2061.0	+117.9	-235.0
APRIL	1392.0	42.0	626.4	35.0	2095.4	1213.0	840.0	8.5	2061.5	-33.9	-268.9
MAY	1485.0	40.0	600.0	33.0	2158.0	1213.0	840.0	8.5	2061.5	-96.5	-365.4
JUNE	1475.0	40.0	600.0	55.0	2170.0	1213.0	840.0	50.0	2103.0	-67.0	-432.4
JULY	1414.0	30.0	600.0	33.0	2077.0	1213.0	840.0	20.0	2073.0	-4.0	-436.4
AUGUST	1414.0	30.0	600.0	35.0	2079.0	1213.0	840.0	9.0	2062.0	-17.0	-453.4
SEPTEMBER	1506.0	30.0	600.0	33.0	2169.0	1213.0	840.0	9.0	2062.0	-107.0	-560.4
OCTOBER	1523.0	70.0	600.0	33.0	2226.0	1213.0	840.0	9.0	2062.0	-164.0	-720.4
NOVEMBER	1672.0	100.0	750.0	33.0	2555.0	1213.0	840.0	9.0	2062.0	-493.0	-1217.4
DECEMBER	-	130.0	2150.0	33.3	2313.3	1213.0	840.0	50.0	2103.3	-210.3	-1427.7
TOTAL	18453.3	671.1	8312.0	442.6	27879.0	14556.8	10184.1	210.4	24951.3	-2927.7	
1984 BUDGET	16500.0	502.1	7933.8	425.6	25361.5	14565.9	10573.4	222.1	25361.5		
c/f from 1983	+17.0	+202.6	+1128.3	+27.0	+1374.9						
					26736.4						

NOTES ON ANNEX C

The table in Annex A shows the Commission estimates of expenditure in 1984 together with the resulting shortfall each month. The total expenditure and revenue forecast by the Commission is compared with the 1984 budget appropriations together with the appropriations carried forward from 1983.

2. The format of the table follows the Commission's layout in the tables given to member states in Budget Committee. The profiles have been constructed as follows:

(i) for January to March the figures used are taken from the Commission's tables, given to Budget Committee, when the Commission withdrew the request for an advance of April's traditional own resources.

Expenditure

(ii) FEOGA advances: the profile is based on information given to MAFF by DG.VI.

(iii) Food aid: the profile is based on previous years' expenditure patterns taking account of the actual spending of the carry forward from 1983 in the first three months of 1984. Food aid expenditure rises substantially in the final quarter of each year.

(iv) Other commission: this is the balance of the Commission section of the budget, including the UK and FRG refunds. It has been assumed for illustrative purposes that the refunds are not paid until December. If an earlier date for payment is agreed, the amount can be switched between December and the month of payment. This will increase the expenditure in the month of payment and the deficit between revenue and expenditure for that month, with a corresponding decrease in December. The cumulative cash position will be reduced by the amount of payment in each of the months from the month of payment to November (inclusive). The cumulative cash position at end December will remain unchanged at -1427.7 mecus.

(v) the other expenditure is assumed to be broadly even throughout the year, with the exception of the ERDF and ESF which are normally end year loaded.

(vi) <u>Other Institutions</u>: this column covers the expenditure of the European Parliament, the Council, ECOSOC, the Court of Auditors and the Court of Justice. It is assumed that expenditure, mainly salaries, is broadly even througout tha year with the exception of rent payments and the costs of the European Parliament Elections.

<u>Revenue</u>

(vii) <u>VAT</u>: the profile assumes equal payments each month since VAT is paid in equal tranches throughout the year. In January the VAT payment is based on the previous year's VAT base with the appropriate adjustment in February. The difference between total received and total budgeted, results from exchange rate movements as the payments of VAT on the 1st of the month are calculated using the exchange rate applicable on 15th of the month previous. It has been assumed that the VAT adjustment in August is neutral in Community terms.

(viii) <u>Other own resources (OR)</u>: the latest information available is that traditional own resources (customs duties, agricultural levies and sugar and isoglucose levies) will remain fairly constant at their present level for the rest of the year. The March figure has therefore been repeated, slightly rounded. This gives a total revenue of 10,184.1 compared with a budget figure of 10,573.4 mecus.

(ix) <u>Other revenue</u>: almost 50% of this total is represented by the proceeds of the tax on salaries and contributions to the pension scheme of Community officials etc. The balance is miscellaneous contributions to other Community programmes, etc. Most of which are paid twice yearly.

April 1984

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF6413

Secretary of State for Trade and Industry

1 May 1984

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

NBPM
JB
2/5

D Nicholas

TRANSPORT COUNCIL : DRAFT RESOLUTION ON UNFAIR COMMERCIAL PRACTICES IN SHIPPING

at Flags.

Thank you for sending me a copy of your letter of 30 March to Geoffrey Howe.

2 I must say that I have strong reservations about giving competence to the Commission in shipping matters. I am concerned that, if the Commission were to decide to take action on a tit-for-tat basis against a third country, and that country took retaliatory action, it would be the UK - as the EC Member State with the greatest interest in shipping - which would be most likely to be injured. In addition, I am not at all confident that we can succeed in defining the scope of the competence transferred in such a way that it is limited to those areas which we are content to cede.

3 I believe we should take account of these concerns in dealings with the Community in this sphere, and that we should avoid any commitment to a proposal which would result in leakage of competence : on balance, therefore, I would opt for rejection of the French proposal on 10 May.

4 I am copying this letter to the recipients of yours.

Yours
Norman

NORMAN TEBBIT

Euro Pol
Budget
PT 24

2 - MAY. 1984

020

Prime Minister

I am doubtful whether you should start by offering that you should move from the 1250 figure.

FERB 27.4.

CONFIDENTIAL

Qz.03695

MR COLES

PRIME MINISTER'S MEETINGS WITH CHANCELLOR KOHL (2 MAY) AND PRESIDENT MITTERRAND (4 MAY)

Although French reactions to the possibility of an early settlement of the outstanding question on the reform of the Community's financing are cautious and guarded, we are continuing to receive information from other sources that the imminent start of the European election campaign does provide some leverage. We think that in other member states there is some genuine consideration whether a settlement should be sought before the start of the European election campaign or whether the issues should come back to the next European Council. Monsieur Thorn saw President Mitterrand yesterday and reports that he was somewhat depressed and uncertain about the timing of a settlement and the other Community budget difficulties.

2. In these circumstances - and particularly as the United Kingdom is being represented throughout the Community as not having moved one millimetre since the European Council and probably as not being willing to do so - the Prime Minister may wish to put the ball back firmly into President Mitterrand's (and Chancellor Kohl's) court by making clear that a settlement is possible now and that it is up to them to take it. At the same time it will be necessary, of course, to make clear that we have already moved a long way on the figures; that there is no prospect whatever of a settlement on the basis advanced by the nine member states (1000 million ecu as the reference figure - on 1983 figures - in the system); and that a settlement implies movement [on both sides] on the figure and otherwise no backsliding on the Presidency text.

/3.

3. The arguments might be advanced on these lines -

(1) disappointed that outstanding issue not resolved at Brussels European Council. This should not be allowed to overshadow fundamental common interest of France, Germany and United Kingdom in a soundly financed Community and in the relaunch of the Community (during the French Presidency);

(2) some feeling in the Community that European election campaign should not be allowed to get under way without an effort to resolve the outstanding question now. Ready to do so, for example at Foreign Affairs Council on 14-15 May or in any appropriate procedural manner proposed by the French Presidency. The United Kingdom made major steps at and before the last European Council, both in accepting the VAT share/expenditure share gap as the basis and in reducing its proposed figure for the reference figure in the system. The Nine cannot stand still and get a settlement. Clearly an honourable settlement involves a movement [by both ? sides] on that figure;

(3) procedurally the United Kingdom could complete the present phase of the negotiation either by simply inserting the missing figure in the Presidency's text or by establishing now the threshold and rate of contribution which correspond to that figure. (Would like French/German reaction);

(4) conscious that a settlement now would allow the French Presidency to structure the agenda for the next European Council towards longer term relaunch of the Community, including enlargement. This will carry more weight following an agreement on the reform of the Community's financing.

4. I am sending copies to Roger Bone (FCO), David Peretz (Treasury) and to Sir Robert Armstrong.

DF Williamson

D F WILLIAMSON

27 April 1984

10 DOWNING STREET

PRIME MINISTER

You asked when this note about the Community Budget negotiations arrived. The answer is Friday. It was prepared in the Treasury on Thursday but failed to receive the Chancellor's imprimatur before Thursday evening. The Notes for Supplementaries did arrive but since we discussed them orally during Questions briefing I did not think that you would require them (correctly as it turned out).

30 April 1984

7.14 CONFIDENTIAL ACNO

2

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

26 April 1984

John Coles Esq
10 Downing Street

Prime Minister
To note
JF 27/4

Dear John

COMMUNITY BUDGET NEGOTIATIONS: 1984 BUDGET SHORTFALL

Your letter of 24 April records the Prime Minister's comments on the question of the Community's Budget shortfall and on the possibility of supplementary national contributions during 1984 to deal with it.

Just before Easter the Commission agreed to put forward to the Council a proposal that member states should, in effect, make a loan to the Community totalling 2.3 billion ecu to finance the shortfall this year. This would require the unanimous agreement of all member States. Their proposal is that the loan would be contributed by member States pro rata with their normal VAT contributions to the Budget and that it should then be repaid by instalments beginning in 1986.

Our officials are now writing a paper, analysing the Commission's proposal and recommending what response HMG should give to it, which it is proposed should be discussed at OD(E) on 3 May. In the meantime in the preparatory discussions which are already beginning in Brussels, UKREP have been instructed to stick firmly to the line taken by the Minister of Agriculture at the price fixing negotiations, namely that the Community must live within its existing budgetary provision of 16.5 billion ecu for agriculture and that, if there are any difficulties in doing so, it is up to the Commission to bring forward proposals for the necessary savings and economies.

The Chancellor made it clear in his discussion with Ortoli in Washington that there could be no question of our agreeing to consider the possibility of supplementary financing in the absence of not only the payment of our 1983 refunds, but of a satisfactory and final agreement for dealing with budgetary imbalances and budgetary discipline for the future. Even when those pre-conditions are met, it should still be our objective that, to the greatest extent possible, the budgetary shortfall should be bridged by savings and economies (including the deferment of CAP expenditure into 1985) rather than by additional finance.

I understand that the FCO are supplying some Notes for Supplementaries on this issue given the likelihood that it will be raised at question time in the House this afternoon.

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

Yours ever,
David

When did this arrive?
MB

D L C PERETZ

Euro Budget
Pt 24

26 APR 1984

EXTRACT FROM THE HOUSE OF COMMONS OFFICIAL REPORT
FOR ..WEDNESDAY 25 APRIL.........

Volume ...58.....   No ..142...   Column(s) .723-724.

Political Integration

MS

55. Dr. Godman asked the Secretary of State for Foreign and Commonwealth Affairs at what meetings of the Foreign Affairs Council proposals for increased political integration of the European Community have been discussed; and what has been the attitude of the Government to these proposals.

Mr. Rifkind: There has been no discussion of any proposals for increased political integration at recent meetings of the Foreign Affairs Council.

Dr. Godman: As a score or more of British Conservative MEPs recently voted in favour of the Spinelli proposals for closer political integration of the European states, is it now Government policy to work towards closer political integration of the EEC — in other words, a united states of Europe? If a closer political integration of the EEC takes place in future, which would include Spain, how would that affect the sovereignty of Gibraltar?

Mr. Rifkind: I understand that the vote to which the hon. Gentleman referred was a free vote among Conservative Members of the European Parliament and it is for individual Members of the European Parliament to take responsibility for the way in which they voted on that occasion. It is not the Government's policy to work towards a united states of Europe. We have made it clear that access between Spain and Gibraltar must be identical to that between Spain and other parts of the European Community when Spain joins the EEC.

Mr. Stokes: On the question of political integration in Europe, have we had any support at all from any of our partners in the EEC over the Libyan embassy episode?

Mr. Rifkind: I ask my hon. Friend to await the statement of my right hon. and learned Friend the Home Secretary. He will be addressing the House shortly on that matter.

Mr. Rogers: How does the Minister reconcile his answer that the Government are not looking towards the political integration of Europe with the statements made by the Prime Minister on her return from various summit meetings at Dublin, Luxembourg, Stuttgart and Athens, which contain specific proposals and ideas for developing political integration in Europe? Is the Minister not now fully acquainted with what the Prime Minister is doing behind his back?

Mr. Rifkind: There are many areas in which we wish to work towards greater European unity. However, the Government have always made it clear that the concept of a federal Europe—which is what I think his hon. Friend the Member for Greenock and Port Glasgow (Dr. Godman) was referring to — is not something that commends itself to them.

Ref. A084/1249

PRIME MINISTER

Cabinet: Community Affairs

You may like to inform Cabinet of the Community aspects of your talks with the Portuguese Prime Minister on 17-19 April.

2. The Minister of State, Foreign and Commonwealth Office, (Baroness Young) will report on the negotiations on the reform of the Community's financing system and, in particular, on Mr Davignon's idea would in reality be a compromise between the disputed figures of 1,000 million ecu and 1,250 million ecu (1983 basis) as the reference figure for the system but would be expressed as figues for the threshold and the rate of compensation to be included in the system. When you discussed this with the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip on 5 April it was agreed that the United Kingdom should continue to seek some improvements in Mr Davignon's ideas and Sir Michael Butler has made our requirements clear to him. Following the Foreign Affairs Council on 9-10 April Mr Davignon decided to pursue his idea further with the French. Mr Davignon has at any rate been sufficiently encouraged to consider that it might now be worthwhile to set out his views informally in a document which he would make available to the French Presidency, the Germans and the United Kingdom. Our own position would still be reserved. Mr Davignon's initiative may be helpful. It complements but does not substitute for a possible high level understanding between France, Germany and the United Kingdom that a settlement might be reached before the start of the European election campaign or, failing this, at the June European Council.

3. The Minister of State, Foreign and Commonwealth Office, will also report on the Commission's proposal of 18 April to deal with the expected shortfall of 2.7 billion ecu in the 1984 budget by means of a 2.3 billion ecu loan from member states (the balance would be made up by savings). The legal basis would be a Council

Regulation under Article 235 of the Treaty, which requires unanimity. Thus the United Kingdom's position is strong. The loan would bear interest at market rates. It would be divided between member states according to their VAT shares and would be repaid in eight half-yearly instalments beginning June 1986. The United Kingdom is bound to reserve its position at this stage, both because we require a prior and satisfactory reform of the Community's finances and because it is too early in 1984 to accept that this unsatisfactory 1984 budget situation is inevitable. We made clear in the context of the agricultural price-fixing that expenditure for 1984 must be accommodated within the existing budgetary provision. The United Kingdom's response to the Commission's proposal will be considered by Ministers in OD(E) on 3 May.

4. You are meeting the Federal German Chancellor on 2 May and having a working lunch with the French President on 4 May. The key issue is to determine whether there is a will to settle on terms satisfactory to the United Kingdom the outstanding question (the reference figure for the United Kingdom's budget refund, however expressed, in the reformed financing system) before the European election campaign gets under way or whether we shall have to come back to this at the European Council in June.

RTA

ROBERT ARMSTRONG

25 April 1984

OC NO

Foreign and Commonwealth Office

London SW1A 2AH

25 April 1984

Dear David,

Chancellor of the Exchequer's Proposed Amendments to Presidency Texts on Budgetary Discipline, Budget Imbalances and Own Resources

Thank you for your letter of 6 April. I understand that the amendments suggested by the Chancellor have already been discussed in detail by officials.

On budgetary discipline, Sir Geoffrey Howe drew attention at the Foreign Affairs Council on 27 March to one of our principal reservations about the Presidency text (questioning the text's endorsement of the Commission paper) when the six draft Council Resolutions were distributed by the Presidency at that meeting. It was subsequently agreed that further work on the text on budgetary discipline should be remitted to Finance Ministers.

Sir Geoffrey Howe doubts whether it would be tactically right to reopen discussion in the Foreign Affairs Council. As you will be aware, the Dutch, Danes and Belgians have indicated that they are unhappy with the present text and cannot be assumed to have accepted it. If we put forward further amendments or reservations, we would in effect be encouraging other Member States to do so too, thereby putting at risk the considerable improvements in the text to which you refer.

Further discussion will take place in ECO/FIN and perhaps in a preparatory high-level group of Finance Ministry representatives. Sir Geoffrey believes that it would be safer to encourage ECO/FIN to consider how to enforce or deliver what is already in the text so as to guarantee the effective application of the principles set out in it, rather than risk unpicking the text itself by opening up further discussion on detail.

Similarly, on budget imbalances, there are obvious dangers in pressing amendments to the Presidency text at this stage. As you know, our partners are beginning to realise that the Presidency system is likely to be of considerable benefit to us over the years and, therefore, costly for them. The French and others have argued that what was on offer at the 27 March Foreign Affairs Council is no longer on offer. There is an obvious tactical element in

/this:

this: we intend to hold them to the Presidency text. Our objective must be to ensure that the Presidency text remains on the table and to reach agreement on the one outstanding element, i.e. the inclusion of satisfactory figures in paragraph 5, or the establishment of a satisfactory threshold/rate of compensation on the lines now being worked on by Davignon.

I enclose detailed comments on each of the amendments proposed in the enclosure to your letter.

have requested

I am copying this letter to the recipients of yours.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

D L C Peretz Esq
HM Treasury

25 APR 1984

COMMENTARY ON THE CHANCELLOR OF THE EXCHEQUER'S CONSOLIDATED LIST OF AMENDMENTS

Proposed Amendment	Comment
BUDGETARY DISCIPLINE High Priority	
1. Para 2, second indent: Commission's version of the financial guideline for agricultural spending should not be specifically endorsed Council because it contains a number of loop holes.	Agree. Raised by Secretary of State at 27 March Foreign Affairs
2. Para 3: Text should specify that arrangements will need to be embodied in the Community's budgetary procedures in a form binding on all 3 institutions.	Current text includes provision that the Council will adopt the measures necessary to guarantee the effective application of the arrangements. This broadly meets our objective.
OTHERS	
3. Para 1, 3rd sub para: Phrase "within their respective powers" should be deleted because this could be interpreted to rule out Treaty amendment.	At 27 March Foreign Affairs Council Secretary of of State suggested "in the framework of their respective powers", which is in line with what is in the French language version But text even as it stands would not necessarily rule out Treaty amendment.

Proposed Amendment	Comment
4. Para 2, 2nd indent, 1st sentence: Insert specific definition of FEOGA expenditure in order to make clear that we do not accept exclusion of ACP sugar and food aid restitutions from definition of FEOGA expenditure.	Useful but this argument could be left to technical discussion without prejudicing our position.
5. Para 2, 2nd indent, 3rd sentence: Reference to exceptional circumstances should be deleted. We accept the need for adjustments to take account of enlargement but not for other reasons such as a fall in world prices. Inclusion of this phrase in Presidency text could prejudice our efforts to secure its exclusion from Commission document on agricultural guideline.	Doubtful if we have much chance of removing this phrase from Commission document.
6. Para 2, 3rd indent, 1st sentence: Reference to Article 203 of the Treaty of Rome should be deleted. Prejudicial to our chances of securing Treaty amendment.	Certainly desirable but French Presidency reaction would be strongly adverse. This was inserted as the mildest possible reference to Article 203 with a view to making the text more negotiable to other member states.

Proposed Amendment	Comment
BUDGETARY IMBALANCES High Priority	
7. Para 3, first indent: Clarify definition of VAT share/ expenditure share gap. Definition of VAT share in Presidency text is ambiguous and may be interpreted by others on the assiette rather than the payments basis. The Chancellor reserved our position on this point at ECOFIN on 2 April.	Definition of VAT share is likely to emerge implicitly in whatever parameters are agreed for the system. Clarification might be achieved more simply by adding at the end of para 3, 1st indent, a reference to the actual figure for 1983.
8. Para 3, 4th indent: Description of financing arrangements should indicate that we would contribute towards any refunds for Germany at the rate of our ticket moderateur rather than at our full VAT rate.	This is a difficult negotiating issue because we do not wish to stir up the Germans in a way which would make it more difficult to reach agreement.
OTHERS	
9. Para 3, 1st line: Insertion of phrase "including its application in respect of 1984" is intended to ensure that detailed arrangements for our 1984 ad hoc refund are agreed by the Council before June together with the arrangements for the long term solution.	Drafting of proposed amendment is misleading Suggests that we are not willing to accept ad hoc payment in respect of 1984.

Proposed Amendment	Comment
10. Para 5: Reference to payment of reliefs in 1985 on the revenue side should be inserted.	Unnecessary since method of correction is already spelt out in para 3, 4th indent.
11. Para 3, 5th indent: Reference to duration of corrective mechanism being linked to decision on new own resources should be deleted. Others could interpret this as meaning that corrective mechanism will only last as long as own resources under the new ceiling.	Text states that duration of system will be linked to the duration of the revised own resources decisions. This meets our point that there can be no change without unaminous agreement. This wording was achieved at Brussels with great difficulty. Any change would risk unravelling what was agreed.

OWN RESOURCES AND ENLARGEMENT

High Priority

12. Substitute "in accordance with" for "in agreement with" national procedures. Amendment intended to make it more difficult for Italy and others to argue that ratification by national parliaments is unnecessary for further increase to 1.6%.	Existing text is compatible with UK position that further ratification is required. In any case, we would not propose to go to Parliament except on 1.4%.

EURO Budget Pt 24
with AJC

CONFIDENTIAL

ECL

10 DOWNING STREET

From the Private Secretary

24 April 1984

The Prime Minister has now seen the record of the Chancellor's brief discussion with Vice President Ortoli in the margins of the IMF Committee in Washington recently. She has asked, on the possibility that supplementary national contributions might be made to deal with the budget shortfall, whether such contributions could be proportionate to national income per head. In any event were such supplementary contributions sought our refunds for 1983 would have to be paid.

I am sending a copy of this to Roger Bone (Foreign and Commonwealth Office) and David Williamson (Cabinet Office).

Timothy Flesher

David Peretz, Esq.,
H.M. Treasury.

CONFIDENTIAL

Ref. A084/1228

MR COLES (o/r) 1/5 p.a.

I should report that, when I met the French Ambassador at a social function earlier this week, he said that he had recently been in Paris, and that on the European financing business "the President was still of the same mind and disposition".

2. I wonder whether this was deliberately intended to counter the unconstructive line which French representatives have recently been taking at lower levels.

3. I am sending a copy of this minute to the Private Secretary to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

RA

ROBERT ARMSTRONG

19 April 1984

CONFIDENTIAL

cc AJC

Prime Minister (2)

To note

AT 18/4

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

MO

17 April 1984

Andrew Turnbull Esq
10 Downing Street

Dear Andrew,

As you know, the Chancellor had a short discussion with Vice President Ortoli, at the latter's request, in the margins of the IMF Interim Committee meeting in Washington last week. You may like to have the attached copy of my note of the discussion.

Copies also go to Roger Bone (FCO) and David Williamson (Cabinet Office).

Yours ever

David

D L C PERETZ

CONFIDENTIAL

FROM: DAVID PERETZ

DATE: 16 April 1984

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Mr Littler
Mr Unwin
Mr Fitchew
Mr Mortimer
Miss Court

NOTE FOR THE RECORD

EC BUDGET: DISCUSSION WITH VICE PRESIDENT ORTOLI

The Chancellor had a discussion with M. Ortoli, at the latter's request, in the margins of the Interim Committee meeting on 12 April. Ortoli described the Community's likely budgetary situation in 1984 on which, he said, the Commission would be putting forward proposals this week.

2. He said that the expected excess of expenditure over maximum possible revenue in 1984 now looked likely to be around 2½ billion ecu, ½ billion of which arose from income being less than anticipated; and 2 billion from higher spending. Although he personally was in favour of looking for spending cuts as the preferred way of reducing this shortfall, realistically he did not expect to achieve savings of more than a few 100 million ecu; much of the expenditure was already irredeemably committed.

3. He listed the following possible ways of dealing with the shortfall:-

Can we 'contribute' due to prop[osals] and would increase per head.

(i) Supplementary national contributions. This he said was permitted under the Treaty of Rome, so long as there was an unanimous vote, but some agreement would be needed on burden sharing. – And our refunds for '83 would have to be paid.

(ii) Borrowing by the Commission either (a) in the markets or (b) from member states or their central banks.

(iii) Agreement by Member States to forgo the 10 per cent of levies and Customs duties allowed them in recognition of the costs of collection.

(iv) Member States paying advances in December 1984 of contributions due in January 1985. He described this as a "trick", and said it would require a unanimous decision.

4. While he did not have direct responsibility of these matters in the Commission he did have "some influence". He would be asking the Commission to present all these alternatives. He had some personal preference for (i), and was against (ii a) (the Chancellor agreed), because of the precedent it would set for deficit financing. His expectation, however, was that the choice would lie between (ii b) and (iv), and probably involve some combination of the two.

5. In reply the Chancellor said:-

(a) His preference was for the maximum possible expenditure cut backs.

(b) Beyond that, the crucial point was to get the budgetary imbalance problem resolved permanently, as soon as possible. While that remained unresolved, and while our 1983 Budget refunds remained blocked, there would be no possibility of securing the approval of the House of Commons for any increase in own resources, and this would be bound to apply to ways of getting round the own resources limit.

D L C PERETZ

Mr Coles

cc PK

CABINET OFFICE

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

Qz.03688

17 April 1984

J B Unwin Esq
H M Treasury
Parliament Street
London SW1

Mr Coles – to see o/r

DWB 19/4

Dear Brian,

FORECAST OF UNITED KINGDOM NET CONTRIBUTION TO COMMUNITY BUDGET: EXCESS CUSTOMS DUTIES AND LEVIES

Thank you for your letter of 12 April. We welcome your suggestion that there should be an early discussion about the forecasts of excess customs duties and levies up to 1988. We shall be pleased to participate and we note that the Treasury is preparing a new forecast of these payments.

2. I agree with you that it is desirable that Ministers should have a single central figure for our unadjusted net contribution, both for assessing the negotiating position and for presentation in the event of a settlement. I should add that, if there is a settlement, I consider that we should not offer any more information than is strictly necessary about forecast refunds and unadjusted net contributions beyond 1986. If we succeed in establishing a system, we should concentrate our announcement on this.

3. As the Treasury is now preparing a new forecast of customs duties and levy payments, I do not wish to prolong the recent disagreement. I should like, however, to record these points -

(i) we were genuinely surprised here to discover, after the Treasury's figures had been distributed with Mr Peretz' letter of 30 March, that the excess customs duties and levies had been forecast to rise from an estimated 291 million ecu in 1983 to 436 million ecu in 1988, an increase of 145 million ecu or 50 per cent (the alternative assumption - the so-called Cabinet Office figures - was that the excess duties and levies gap throughout the period to 1988 would be 13 per cent higher than in 1983). By comparison with the average figure for the three year period 1981-83, you are forecasting an increase of 47 per cent.

/(ii)

(ii) there has never been any dispute that the work of Mr Timmins and Mr Marshall, circulated under cover of Mr Mortimer's letter of 28 February to Mr Durie, provides the essential raw material for an assessment. We remain of the view, however, that the figures for excess customs duties and levies incorporated in the forecasts of net contributions (Mr Peretz' letter of 30 March to Mr Bone) are not consistent with the conclusions which may reasonably be drawn from the work of Mr Timmins and Mr Marshall. You will recall that Mr Timmins' conclusion on customs duties on manufactured goods was that "the most central projection would probably be somewhere between cases 2a and 2b". These cases showed

	1983	1984	1985	1986	1987	1988
case 2a						
Customs duties/GDP gap (as % of GDP)	0.091	0.093	0.090	0.081	0.075	not forecast
Customs duties/GDP gap: increase or decrease in million ecu	-	+59	unchanged	-35	-27	not forecast

(In 1987 the gap would be 3 million ecu lower than in 1983)

	1983	1984	1985	1986	1987	1988
case 2b						
Customs duties/GDP gap (as % of GDP)	0.100	0.105	0.109	0.106	0.105	not forecast
Customs duties/GDP gap: increase or decrease in million ecu	-	+80	+45	+4	+7	not forecast

(In 1987 the gap would be 136 million ecu higher than in 1983)

Mr Marshall's work on the agricultural element does not greatly alter the conclusion on the total gap but is more provisional and slightly on the down side (on agricultural levies "there is no particular reason to suggest that a strong rise in the UK's share from the 22% expected in 1983 is likely, and some plausible indications that the medium term trend may be downwards" and on sugar levies ". . . it is likely that the total value of sugar levies may fall in the future . . . and the UK share may fall as well").

/In

In short, we think that you have gone too far away from case 2a and have adopted a position which is very close to case 2b. As you know, Mr Timmins' paper examines at length four cases (1, 1a, 2, 2b) and concluded that "the discussion above would suggest that case 2a is the most central projection of those considered so far since it more realistically takes into account the effect of reducing tariff rates than either case 1 or case 1a and allows for a more likely future path of the ratio of manufactured imports in total imports for the UK than case 2". Cases 1b and 2b were introduced because of the question whether it is appropriate to model the proportion of extra-EC imports of manufactures in total imports of manufactures as a function of past trends alone. It is in our view right that there should be some assessment of this point but it is certainly a disputed and difficult point;

(iii) I have referred above to cases 2a and 2b since in the view of Treasury economists "a scenario bracketed by cases 2a and 2b would seem to be the most probable outcome". Mr Mortimer correctly recorded, however, in his letter of 28 February to Mr Durie that, while Treasury economists believe that projections 2a and 2b represent the most likely outcome, FCO tend to favour projection 2. The reasons for the difference of view between the Treasury and the Foreign and Commonwealth Office are set out in that letter, which was agreed with FCO economists. Case 2 is as follows -

	1983	1984	1985	1986	1987	1988
Customs duties/GDP gap (as % of GDP)	0.090	0.087	0.081	0.071	0.062	not forecast
Customs duties/GDP gap: increase or decrease in million ecu	-	+33	-17	-45	-46	not forecast

(the customs duties/GDP gap would be 75 million ecu lower in 1987 than in 1983)

4. These points do seem to need further clarification in the meeting which you have suggested.

/5.

5. I am sending copies to the recipients of your letter.

David Williamson

D F WILLIAMSON

cc: Sir Crispin Tickell, FCO
Sir Michael Butler, UKREP, Brussels
Mr Andrews, MAFF
Mr Coles, No 10

Euro PJ.

Budget Pt 24

File SSH

10 DOWNING STREET

From the Private Secretary 17 April 1984

Visit by MEPs

Thank you for your letter of 13 April to John Coles about the proposed visit by a group of MEPs to the UK to study the way in which our budget refunds are being spent.

The Prime Minister feels strongly that this visit should not go ahead before the European elections, since it would be seen as a substantial extravagence at the expense of the taxpayer.

I am sending copy of this letter to Mr Lamport in Malcolm Rifkind's office.

(David Barclay)

A M Ellis Esq

Economic Secretary's Office

6

CONFIDENTIAL

FILE cc: 7C REV

10 DOWNING STREET

From the Private Secretary

16 April, 1984

COMMUNITY BUDGET AND UNITED KINGDOM REFUNDS

The Prime Minister has seen Michael Saunders letter of 12 April to Robin Butler.

Mrs. Thatcher recalls that at Cabinet on 29 March she was advised that, if our refunds were not paid by 31 December, a legal obligation to pay them would then be incurred by the Community.

Since the Attorney General is not, at any rate at present, in agreement with that proposition, the Prime Minister hopes that the departments concerned will consider the matter urgently and let her have further advice.

BF

I am sending a copy of this letter to Michael Saunders (Attorney General's Office), David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

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

NR

CONFIDENTIAL

John - agree to approach Mitterrand about a further meeting MG

PM/84/66

Now f.a.
AP 1/5

PRIME MINISTER

European Community

1. Following our talk, I have been reflecting overnight about how best to take the negotiations forward. I know that you have also been giving thought to this.

2. The negotiations at present are stalled. All those who have been most closely involved in them share my view that there is now a real risk of the system slipping from our grasp. This is why I have no doubt that it must be in our interest to carry things forward, if we can, during the French Presidency. Mitterrand will plainly maintain his interest in reaching an agreement during that period. Once he is no longer President of the Community, his position could be very different. Of course we have no way of knowing whether he wants an agreement before the European elections. From his point of view, there are arguments both ways. But if we are to get an agreement by the time of the Summit, which takes place only a week after the elections, we have to get the negotiation underway again in the meantime. So we need to consider ways of restoring some momentum, and of doing so before the election campaign gets under way.

3. I understand that you have been thinking about the possibility of an early meeting with Kohl, before the Anglo/German Summit on 2 May. The same thought had occurred to me; but I doubt if it would help. There is an obvious difficulty in arranging a special meeting with Kohl, a matter of days

/before

before the regular bilateral Summit, without this looking like a major new initiative. It would arouse the suspicions of the French and others who would think that we were trying to get together with Germany, as the other net contributor, to outflank them. It would certainly look to Mitterrand as if we were deliberately by-passing him as President of the Community. It would be the more difficult thereafter to bring him back into play in a helpful fashion.

4. The risk might just be worth taking if we could be confident of making real progress with Kohl. It is not clear that we could. The German position on the key question of whether Germany is protected by the budget system and the extent of her contribution to our relief is still obscure. If you were to make a special visit to see Kohl, that issue would inevitably come to the fore, in an unhelpful and potentially costly way. The Germans never have been prepared to put real pressure on the French. In the end, I think Kohl can be persuaded to move. But, I suspect, he is only likely to be persuaded to bear his full financing share, and perhaps to forego reliefs for Germany, when he sees an outline agreement in place. Mitterrand's help will be needed to convince him that he must compromise in the interest of clinching that agreement for the sake of the Community as a whole.

5. The fact is that the expectation of a meeting between you and President Mitterrand has been created by his remarks about his visit to Culham. The general disposition in the Community is to wait on such a meeting. I am very doubtful if matters can be carried much further forward meanwhile. That appears also to be Davignon's view.

6. This puts us in a difficult position. Clearly, we do not want to look as if we are under pressure to reach an agreement. But the present impression in the Community is that we are not

/seeking

seeking an agreement at all. This means that without some fresh impetus, we shall not get the negotiations moving again. There were good practical reasons why you and Mitterrand could not arrange to meet last Monday. But President Mitterrand did make a specific proposal that you might go to Paris for talks and it remains open to us to take up this invitation. I would not wish to leave for Hong Kong at the weekend without offering you my firm advice that we should do so.

7. As I explained on Thursday, I would not see such a meeting as an occasion for negotiation. The aim would be to ensure that Mitterrand understands that we share his aim of achieving the re-launch of the Community at the June Summit; that we have made an enormous amount of progress under his Presidency; and that we now need to work with the French, as we did before the Brussels Summit, to bridge the remaining gap which stands in the way of an overall settlement. The object would be to get further work on a settlement remitted back to Dumas, who at present has no authority to negotiate. It would also be helpful to get Davignon back into the act. I believe he has a key role to play - although we should not give the French the impression that we think so.

8. The expectation in the Community that nothing much will happen until you and Mitterrand have met is of course self-fulfilling. The French Finance Ministry have been calculating the considerable cost to France of the system put forward at the European Council. They and others would like nothing better than to unravel it if they can.

9. I have invited Thorn to see me at Chevening on my return from the Far East. You will be meeting Kohl on 2 May. With the next meeting of the Foreign Affairs Council taking place on 14/15 May, any meeting between yourself and Mitterrand

/much

much later than early May would start to look more and more like a make-or-break occasion. An early meeting, on the other hand, as part of a round of meetings involving Kohl and Thorn, would be seen in the Community as a natural step in re-launching the negotiations after the Easter recess.

Not read until 6.15 p.m.
MB

I shall be at Carlton Gardens until about one o'clock tomorrow, if you wanted another word about the difficulties - which I do appreciate

(GEOFFREY HOWE)

Foreign and Commonwealth Office
13 April 1984

13 APR 1984

(2)

Prime Minister

A.J.C. 16/4

Treasury Chambers, Parliament Street, SWIP 3AG

I think it is ridiculous to allow this visit to go ahead before the Euro-elections. A gross extravagance of taxpayers money. MT

A J Coles Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

13 April 1984

Dear Mr Coles

VISIT BY MEPs

You may wish to be aware of a visit by a group of 8 or so MEPs to the UK to see how our 1982 Budget refunds are being spent.

At the end of 1982, an invitation was issued to a small group of MEPs - including the Chairmen of the relevant Parliamentary Committees - to see how our Budget refunds were being spent. A formal, written invitation was issued last September. The MEPs replied at the time that a visit was not convenient. But they have now written suggesting that they come on 10 and 11 May.

The Economic Secretary has discussed this visit with the Minister of State at the FCO (Mr Rifkind). They are aware that the visit could possibly lead to some political embarrassment. It would take place at the beginning of the European Election Campaign, and the Government could be open to criticism for organising such a trip, partly at public expense, when our 1983 refunds were being blocked (though strictly the visit would be to see how our 1982 refunds were being spent). Nevertheless, the invitation to the MEPs was issued in good faith, and they have accepted it in good faith. In the circumstances, both Ministers agree that the visit should go ahead.

The Economic Secretary has not yet replied to the MEPs since he is currently awaiting comments from the Secretaries of State for Energy and Transport (for example on possible projects to be visited). But he intends to write back in the next few days.

A copy of this letter goes to Mr Cary (Private Secretary to Mr Rifkind).

Yours sincerely,
Adam Ellis

A M ELLIS
Private Secretary

O26

CONFIDENTIAL

CABINET OFFICE

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

Qz.03679 13 April 1984

J B Unwin Esq
H M Treasury
Parliament Street
London SW1

A. J. C. 16/4

p.a.

Dear Brian,

REFORM OF THE COMMUNITY'S FINANCES

Thank you for your letter of 11 April about the next steps in the negotiation on the reform of the Community's finances, which is currently stalled. I am quite sure that Mr Davignon knows the United Kingdom's position on the figures. Sir Michael Butler made our requirements absolutely clear to him, on instructions following the recent Ministerial meetings here. It would not be in Mr Davignon's personal interest to come back to us with a settlement which we would have to reject.

The question of a meeting between the Prime Minister and President Mitterrand has been the subject of some discussion between the Foreign and Commonwealth Secretary and the Prime Minister. I understand that the Prime Minister's present position is that she is not seeking an early meeting. I think that we all need to be careful not to imply publicly in any way that there has been a decision not to have a meeting but rather that we should imply that this question is still open. Otherwise the impression that the United Kingdom is not currently seeking an agreement will be strengthened in the Community.

I am sending copies to the recipients of your letter of 11 April.

Yours sincerely,

David Williamson

D F WILLIAMSON

cc: Sir C Tickell) FCO
Mr Renwick)

Sir M Butler, UKREP

Mr Coles, No 10

CONFIDENTIAL

CONFIDENTIAL

(2).

[redacted]05 7641 Ext. 3229

Communications on this subject should be addressed to

THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref: 400/79/289

12 April 1984

Prime Minister.
I have asked the F.C.O. to get together with the Attorney-General and produce an agreed view. A.J.C. 13/4.

F E R Butler Esq
Principal Private Secretary
Prime Minister's Office
10 Downing Street
LONDON S W 1

Urgently

Dear Butler,

CABINET 29 MARCH 1984 : ITEM 3 : COMMUNITY BUDGET AND UNITED KINGDOM REFUNDS

The Attorney General has seen a copy of the Conclusions of the Cabinet meeting held on 29 March. On page 5 in Minute 3 under the heading "Community Budget and the United Kingdom Refunds", it is reported that it was the understanding of a Minister that the strong moral arguments for the refund to be paid by 31 March would be reinforced by a legal obligation if the refund were not paid by 31 December.

The Attorney General appreciates that the Cabinet Minutes can of course provide only a summary of the arguments advanced at a meeting and acknowledges that he may have misunderstood the purport of the proposition that was advanced. He has asked me, however, to record the fact that he has not advised that a legal obligation arises on 31 December, notwithstanding the absence of Council regulations and budgetary appropriation. Before that proposition could be advanced with any confidence there would need to be a further study of several issues, including in particular, whether the Stuttgart "Declaration" amounts to a binding agreement in international law and, if so, precisely what rights and obligations it creates.

I specifically question the FCS about this and he said he had enquired and that there was a legal obligation after 31/12/84.

I am copying this letter to the Private Secretaries to the Lord Chancellor, Foreign and Commonwealth Secretary, Chancellor of the Exchequer and Sir Robert Armstrong.

Yours sincerely,

M L SAUNDERS

CONFIDENTIAL

Euro-Pol: Budget Pt 24.

EUROPEAN COMMUNITY: NEGOTIATIONS

1. The discussion in the Foreign Affairs Council in Luxembourg on 9-10 April on Budget Imbalances was completely unproductive. Cheysson chose to play this as an attempt to give an impression of total blockage caused by our supposed unwillingness to move beyond positions taken up at the European Council. His aim clearly was to preserve a 9:1 line-up. I was told by Davignon that Cheysson has been arguing that neither the French nor the Community should make any attempt to bridge the gap. There was, I suspect, some consultation between Cheysson and Genscher before the Council. Cheysson stated that the only proposition now on the table was Kohl's offer of a 1000 mecu refund over the next five years. As I made clear, this is totally unacceptable.

2. I had hoped to use this Council to give some additional impetus to Davignon's attempt to find a solution by fixing the threshold and rate of compensation for our returns (which has obvious advantages over simply fixing a nominal rate of refund in 1983). Davignon's scheme, if the parameters can be got right, looks promising from our point of view. Thorn, however, was not prepared to give any undertaking in the Council that the Commission would make new proposals.

3. The reason was that Davignon's proposals came as a shock to the French, who realise that they give us a very large measure of protection and would rapidly increase their own contribution. Attali in particular reacted strongly to them. Dumas told me that Mitterrand's present position is that the uncertainties are too great about Community expenditure after enlargement (about which the French are greatly concerned); and that therefore we should be offered only finite refunds over the next two to three years. I made clear that we regarded agreement on a system as the _sine qua non_ for our agreement to an increase in own resources.

4. On current expenditure, Thorn announced at the Council that the shortfall this year will be 2.5 billion ecus. The Commission are likely to propose that this should be met either by borrowing from the central banks of one or more of the member states, against repayment in 1986, when they hope own resources would be raised; or by member states foregoing the present refunds they receive for the collection of Customs duties and taxes (also against repayment in 1986). Either proposal would require unanimity. We, and I hope other member states, will oppose them. I have asked for work to be set in hand on the implications of the various possible ways in which the Community might try to finance the resultant deficit. I believe, however, that the most likely outcome is that the Community will have to stop reimbursing national governments for EAGFF expenditure in November and December, and then repay them in January (thereby adding to the potential deficit in 1985).

5. In the meantime, negotiations in the Council are stalled and much of the momentum which existed at the time of the European Coucnil has been lost. We need to do what we can to restore that momentum. Own resources cannot be increased without our agreement; that remains our most powerful lever. But I don't believe that it would serve our interests to let matters drag on. If a solution is not found within the span of the French Presidency, it is likely to be more difficult to achieve thereafter. The French will then regard themselves as free agents. We shall lose the Presidency system from which the French and others are trying to resile; and we should be uncovered as to our contribution in 1984.

6. Our objectives must be to seek to ensure:

a) that the Presidency system, which includes many of the features to which we attach importance, is not lost;

b) that Davignon's ideas, which go a long way to meet our needs, are kept alive; and

c) to keep the French actively engaged in the search for a solution

7. While Davignon is anxious to move ahead, he does not have the full backing of the Commission. He knows that he will not be able to get anywhere without French support. It may not now be possible to get much further with the French, or in the Community generally, without aiming for a meeting between you and the President. This is Davignon's view, as well as our own. This should not be a negotiating meeting; nor should it be presented as such. We must get the French off the idea, on which they have fallen back, of short term refunds. We shall need to deal also with their alternative approach, which appears to be to try to set an inadequate rate of compensation in any more systematic solution.

8. Our approach, I suggest should be:

a) to pay tribute to the considerable effort made by Mitterrand in the run-up to the European Council.

b) to make clear that it is our intention to look actively for ways of narrowing the remaining gap.

c) that this can only be done on the basis of moving forward from the position reached at the European Council and the 27 March Council.

The objective should be to get Mitterrand to remit detailed work on a solution and ~~to~~ get back to further contacts between ourselves and Dumas. It would also serve the purpose of getting Davignon back into the act.

FCS/84/117

N.B.P.R.

SECRETARY OF STATE FOR TRANSPORT

A-S C. 13/4.

10 May Transport Council: Unfair Commercial Practices in Shipping Services

see pt 23 attached

1. Thank you for your letter of 30 March.

2. I agree with you that the French proposal is distinctly unpalatable. Of the policy alternatives which you identify - outright rejection or a vigorous effort to re-draft the proposal to suit our own objectives - I agree with you that we should opt for the latter, though we should not be surprised if the French decide to withdraw their proposal and oppose our counter-draft, with nothing agreed as a result. We can certainly expect no support from those Member States which make a habit of providing state aid for their national shipping lines, France and Italy in particular.

3. There may well be a protracted wrangle over the proposed method of deciding what constitutes unfair competition, at what level the compensatory levy should be set, and particularly who should decide. The Department of Trade and Industry have much recent experience in this field through the complex negotiations on the draft Common Commercial Policy Regulation concerning unfair trading practices of third countries. The CCPR was virtually agreed at the Foreign Affairs Council on 9 April. I understand that Norman Tebbit's officials and ours are being consulted on the proposed amendments to the French text to be tabled at the Transport Working Group on 17 April.

4. If we are to succeed in our long-term objective of promoting open competition in shipping, the Commission will have to come up with the right response to any Council call for legislation. It would be prudent to let the Commission know in advance what we intend.

/5. I am

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

GEOFFREY HOWE

Foreign and Commonwealth Office
12 April 1984

Euro Pol. Budget

Pt 24

510

cc PC.

RESTRICTED

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 3711

A.J.C. 9/4

f.a.

J B Unwin
Deputy Secretary

12 April 1984

D F Williamson Esq
Cabinet Office
70 Whitehall
LONDON SW1

Dear David.

FORECAST OF UK NET CONTRIBUTION TO COMMUNITY BUDGET: EXCESS CUSTOMS DUTIES AND LEVIES

The purpose of this letter is to suggest that there would be merit in an early discussion about the forecasts of our excess customs duties and levies for the period up to 1988 in order to resolve the disagreement which has arisen between Departments over the last week or so.

2. We in the Treasury were concerned to see that - without any prior warning - the briefing provided for the Prime Minister's meeting on 5 April gave two sets of forecasts of the excess customs duties and levies, one designated "Treasury" and one "Cabinet Office". We were still more concerned - after the discussion of these figures at the Prime Minister's meeting - to see that the FCO's briefing for this week's Foreign Affairs Council evaluated the different variants of the Davignon scheme solely in terms of the "Cabinet Office" figures. I did not myself see this briefing until Monday after it had been completed and circulated.

3. I think this is most unsatisfactory. All the projections are necessarily subject to margins of error. But Ministers must be able to assess any budgetary imbalances scheme under discussion by reference to a single central figure for our unadjusted net contribution (including the excess customs duties and levies), in the confidence that this has been accepted by all the Departments concerned as the best and most up to date professional forecast available. The Treasury are responsible for making these forecasts and advising Ministers on them. But, in making these forecasts - as other economic forecasts - we are entirely willing to draw on any expertise and information that may be available in other Departments and to have the forecasts and the assumptions underlying them tested in inter-departmental discussion before they go to Ministers.

4. There are in fact two reasons why the forecasts need to be brought up to date again now. First, a fresh forecast of our programme 2.7 net contributions is required for the Public Expenditure Survey (PES) Report by mid-May. As you may know, Geoffrey Fitchew held a first meeting of the new PESC(EC) Committee this week. The Treasury will circulate a new forecast to this Committee early in May. The net contribution figures which go into the PES Report will form the starting point for the later forecast which will go into next year's Public Expenditure White Paper.

5. Second, if and when we reach a satisfactory settlement on budgetary imbalances, we shall need very rapidly to advise Ministers what estimates can prudently be given to the House of Commons of the net contribution figures likely to result from the application of the corrective mechanism. Such figures will undoubtedly command great attention and be subject to close scrutiny and it will not be possible to provide them unless we have a single agreed central estimate available. This central estimate will need to be as up to date as possible and compatible with what is subsequently put forward to Ministers in the PES Report and in the Public Expenditure White Paper.

6. I therefore propose that we should proceed as follows. The Treasury is now preparing a new forecast of our customs duties and levy payments for the period up to 1988. We will circulate this as soon as we can - if possible before Easter. If other Departments think there are any problems with the figures, or wish to examine the assumptions underlying them in more detail, Geoffrey Fitchew or Jamie Mortimer will organise a meeting with the MAFF and FCO technical experts, with the aim of arriving at an agreed central forecast. This will then form part of the input into the PESC(EC) work. If, however, there is any need to provide briefing for Ministers (eg for any further discussion with President Mitterrand or other bilaterals with the French) <u>before</u> this updated forecast is available, I must ask that figures to be used should be the Treasury estimates set out in Jamie Mortimer's letter of 29 March to David Durie, in your note to the Prime Minister of 4 April and in the Treasury ready reckoner supplied for this week's Foreign Affairs Council.

7. Copies of this letter go to Crispin Tickell, Michael Butler, Derek Andrews and for information to John Coles at No 10.

Yours ever,

Brian Unwin

J B UNWIN

BRITISH EMBASSY,
PARIS.

FROM THE AMBASSADOR

11 April 1984

Mr Fairweather (ECD(I))

Sir Crispin Tickell KCVO
DUSS
FCO

cc. Private Secretary
PS/Mr Rifkind
PS/PUS
Sir J. Bullard
Mr Renwick

I shd acknowledge with any comment in due course. I will show a copy to Mr Coles (No. 10) on the aircraft to Lisbon tomorrow.

C
16/iv

Dear Crispin,

EC BUDGET NEGOTIATIONS

1. I am not fully in the picture about what is happening in Brussels, or indeed elsewhere, on the EC budget negotiations. Michael Butler's recent telegrams have looked encouraging. It may be that by the time you receive this letter we shall have secured a decisive breakthrough. In which case please read no further. I would not in any event wish to interfere from the side-lines. But if negotiations are still in the balance it may be useful for you to have an impression, however incomplete, of how matters look from Paris.

2. It seems to me that our strategy has been vindicated by the results achieved so far and that we are very well placed for the final phase of negotiations. There are four important factors which all appear favourable from here:-

(a) Only we can unlock the door to increased own resources. The Community is running out of money this year and the various escape routes all have "unanimity" firmly stamped on the door. However much they wriggle and protest the others have got to secure our agreement if the Community, including in particular the CAP, is to continue to operate beyond the autumn of this year.

(b) The various threatening noises made by the French and others about variable geometry, a two-speed Europe, reversion to the Europe of Six, a new Messina to go back to the Treaty of Rome, building Europe around a Franco-German axis extending into the sphere of security and defence

/etc

etc all look unrealistic on closer analysis. I doubt whether even the French believe these spectres are going to frighten us into accepting an inadequate deal on the budget.

(c) Mitterrand has his Community triumph almost within reach. He still badly needs a major success. His claim to have resolved 95% of the outstanding problems during the French Presidency will look hollow if he hands on a Community with no agreement to increase own resources and with bankruptcy looming. Since he has decided to swallow the bitter pill of a durable system, why should he choose to put all his gains at risk over the odd 200 million écus as the starting point for the system?

(d) The Commission, or at least some of its more dynamic and intelligent elements, seem to be coming into action in the right way at the right time.

3. Against this background I find it hard to explain why I feel a slight unease about the final crucial stage of the negotiation. It is partly I suppose that one knows there are people close to Mitterrand who are capable of putting spokes in the wheel even now, not because they wish to frustrate his policies but because they want to do better for him or for France and see what is emerging as something of a defeat. Attali is always liable to try to recover lost ground and to resort to old-fashioned arm-twisting. Cheysson may still believe that we can be forced back into line by the constant pressure of nine against one. More generally, a mood of exasperation - even bitterness - could start to spread through the French governmental machine. The tide which is now flowing strongly in our favour could at some point, which would be hard to detect, start to ebb. My feeling is that we may have to move rather soon if this is not to happen, or at least that there is an opening in the next few weeks which may not recur until the late autumn, by which time the mood in the Community might be very sour indeed and the whole course of events unpredictable and uncontrollable. In France trouble will grow with the small milk-producers from mid-May and with the viticulturalists from June. The Government will be short of funds to buy them off. comparisons could be made with the apparent cost of "the British cheque". With their backs to the wall some here would prefer brinkmanship against the UK to further moves in negotiation.

/4.

4. The key, as always here, is in Mitterrand himself. I am sure that he wants to be seen as the saviour of Europe and to carry the day with suitable French panache. He will have to be able to pretend to others and perhaps even to himself that he is securing a triumph, not that he has been driven by the British into a corner from which he and the Community have only one way out. There may have to be some theatre about the concluding phase of the negotiations - urgent trips to certain capitals, special meetings etc. I assume that a little playing-up to French vanity would be a small price to pay for the long-term solution we require. We should look out for suitable opportunitites and may need to reassure Mitterrand in some way that we understand this aspect of the game. He may be feeling a little bruised by his failure to meet the Prime Minister on 9 April, even if the incident was his own fault. It does not do for a French President to appear in the eyes of his public opinion to have made a muddle, still less encountered a snub. Depending on where the negotiations are actually getting to, it might be worth considering a further message to Mitterrand to encourage him in his efforts, focussing his mind on the sunlit uplands beyond the budget agreement, and making it clear that we understand his need to be standing in the middle of the canvas on the day we all sign up.

5. To summarise, I would recommend that however strong our underlying position we should try to sew things up in the next few weeks and pay due attention to Mitterrand's ego in the process.

6. There is one other aspect which goes somewhat outside my responsibilities here. I would expect others to start making a link soon between our budget deal and the emergency arrangements which will be needed to get the Community through 1984 and 1985. I assume that there is no chance whatsoever of saving 2 billion écus on the agriculture budget and that special arrangements will have to be made by say October. If we know what we are prepared to offer (eg participation in a loan up to our VAT share, for repayment in 1986 perhaps?) we ought to consider whether and how to use it as a possible make-weight in the final stage of the budget negotiation. Even if we cannot contemplate more than an indication of readiness to consider the 84-85 problem with an open mind we should consider how to play that to advantage. This factor may in any event shorten the time at our disposal. It will weigh against the chance of a budget deal if the impression starts to grow that even with the deal wrapped up we shall be content to watch the Community slide towards bankruptcy and farming regions drift into violence, at least in France, as the CAP payments stop.

Yours ever,

John

John Fretwell

cc to:-
David Williamson Esq, Cabinet Office
Sir Michael Butler KCMG, UKRep Brussels

OO UKREP BRUSSELS
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CONFIDENTIAL
FM FCO 111450Z APR 84
TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 186 OF 11 APRIL
INFO IMMEDIATE E C POSTS
EUROPEAN COMMUNITY: BUDGET IMBALANCES

1. TUGENDHAT TELEPHONED THIS MORNING TO GIVE ME AN ACCOUNT OF DISCUSSION IN THE COMMISSION ON THE OUTCOME OF THE LUXEMBOURG FOREIGN AFFAIRS COUNCIL. HE SAID THAT THERE WAS GENERAL SURPRISE AND SOME RESENTMENT THAT THE U K WAS NOW INSISTING THAT IT WAS FOR THE COMMISSION TO COME FORWARD WITH A COMPROMISE PROPOSAL. THE GENERAL REACTION, IN THE LIGHT OF THORN'S REPORT THIS MORNING, WAS THAT THE U K WAS TRYING TO BOUNCE THE COMMISSION. THE FACT WAS THAT THE COMMISSION WOULD PROBABLY NOT WISH TO DO ANYTHING UNLESS IT WAS CONFIDENT THAT THERE WOULD BE A GENUINE WILLINGNESS TO MOVE ON BOTH SIDES.

2. I SAID THAT THERE OUGHT TO BE NO DOUBT ABOUT THE U K POSITION. MY SUGGESTION IN THE COUNCIL HAD BEEN TO THE EFFECT THAT IF THE COMMISSION WISHED TO MAKE A PROPOSAL, THE U K WOULD BE WILLING TO LISTEN CAREFULLY. WE WERE NOT INSISTING THAT THE COMMISSION SHOULD PLAY THE ROLE OF ARBITRATOR, BUT LEAVING THEM THE OPTION OF ACTING AS MARRIAGE COUNSELLOR. THERE WAS NO DOUBT ABOUT OUR DESIRE TO MOVE TO A SETTLEMENT, ON A FAIR BASIS SOONER RATHER THAN LATER. THE PROBLEM WAS THAT THERE WAS VERY LITTLE INDICATION OF WILLINGNESS TO MOVE FROM ELSEWHERE. TUGENDHAT SAID THAT THE GENERAL IMPRESSION IN THE COMMISSION WAS, NEVERTHELESS, THAT THE U K WAS UNWILLING TO MOVE, AND THAT OUR DESIRE WAS SIMPLY TO ELICIT FURTHER MOVEMENT FROM ELSEWHERE IN ORDER TO POCKET IT AND THEN COME BACK AND EXPECT EVEN MORE MOVEMENT. ~~THAN~~ I SAID THAT THIS WAS CERTAINLY NOT THE INSIGHT WHICH MEMBERS OF THE COMMISSION OUGHT TO HAVE DRAWN.

3. TUGENDHAT SAID THAT THORN ALSO THOUGHT THERE WAS LITTLE POINT IN ATTEMPTING ANYTHING UNTIL THE PRIME MINISTER HAD MET PRESIDENT MITTERRAND. I SAID THAT IT

OO UKREP BRUSSELS
GRS 699
CONFIDENTIAL
FM FCO 111450Z APR 84
TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 186 OF 11 APRIL
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EUROPEAN COMMUNITY: BUDGET IMBALANCES

1. TUGENDHAT TELEPHONED THIS MORNING TO GIVE ME AN ACCOUNT OF DISCUSSION IN THE COMMISSION ON THE OUTCOME OF THE LUXEMBOURG FOREIGN AFFAIRS COUNCIL. HE SAID THAT THERE WAS GENERAL SURPRISE AND SOME RESENTMENT THAT THE U K WAS NOW INSISTING THAT IT WAS FOR THE COMMISSION TO COME FORWARD WITH A COMPROMISE PROPOSAL. THE GENERAL REACTION, IN THE LIGHT OF THORN'S REPORT THIS MORNING, WAS THAT THE U K WAS TRYING TO BOUNCE THE COMMISSION. THE FACT WAS THAT THE COMMISSION WOULD PROBABLY NOT WISH TO DO ANYTHING UNLESS IT WAS CONFIDENT THAT THERE WOULD BE A GENUINE WILLINGNESS TO MOVE ON BOTH SIDES.

2. I SAID THAT THERE OUGHT TO BE NO DOUBT ABOUT THE U K POSITION. MY SUGGESTION IN THE COUNCIL HAD BEEN TO THE EFFECT THAT IF THE COMMISSION WISHED TO MAKE A PROPOSAL, THE U K WOULD BE WILLING TO LISTEN CAREFULLY. WE WERE NOT INSISTING THAT THE COMMISSION SHOULD PLAY THE ROLE OF ARBITRATOR, BUT LEAVING THEM THE OPTION OF ACTING AS MARRIAGE COUNSELLOR. THERE WAS NO DOUBT ABOUT OUR DESIRE TO MOVE TO A SETTLEMENT, ON A FAIR BASIS SOONER RATHER THAN LATER. THE PROBLEM WAS THAT THERE WAS VERY LITTLE INDICATION OF WILLINGNESS TO MOVE FROM ELSEWHERE. TUGENDHAT SAID THAT THE GENERAL IMPRESSION IN THE COMMISSION WAS, NEVERTHELESS, THAT THE U K WAS UNWILLING TO MOVE, AND THAT OUR DESIRE WAS SIMPLY TO ELICIT FURTHER MOVEMENT FROM ELSEWHERE IN ORDER TO POCKET IT AND THEN COME BACK AND EXPECT EVEN MORE MOVEMENT. ~~THAN~~ I SAID THAT THIS WAS CERTAINLY NOT THE INSIGHT WHICH MEMBERS OF THE COMMISSION OUGHT TO HAVE DRAWN.

3. TUGENDHAT SAID THAT THORN ALSO THOUGHT THERE WAS LITTLE POINT IN ATTEMPTING ANYTHING UNTIL THE PRIME MINISTER HAD MET PRESIDENT MITTERRAND. I SAID THAT IT

RIGHT TIME. I SAID THAT TUGENDHAT SHOULD
PERHAPS MAKE VERY SURE THAT OTHERS IN THE COMMISSION PROPERLY
UNDERSTOOD THE U K POSITION. IF THERE WAS ANY CHANCE OF THE
COMMISSION PLAYING A HELPFUL ROLE,
THAT WOULD BE VERY WELCOME. THERE SHOULD BE
NO DOUBT ABOUT THE U K'S WISH FOR AN EARLY SETTLEMENT ON A FAIR
BASIS.

HOWE

NNNN

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cc NO

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Parliament Street London SW1P 3AG
Switchboard 01-233 3000
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J B Unwin
Deputy Secretary

11 April 1984

D F Williamson Esq
Cabinet Office
70 Whitehall
LONDON SW1

A. S. C. 12/4
p.a.

Dear David,

REFORM OF THE COMMUNITY'S FINANCES

Thank you for copying to me your minute of earlier today (subsequent to our telephone conversation) about your conversation with Davignon. I have also now seen the draft records of Sir Geoffrey Howe's meetings in Luxembourg yesterday with Davignon and Dumas.

2. As I indicated to you, I have no objection to Davignon making further contact with the French to see whether he can make progress on the kind of ideas that he put to us last week. But I hope that he is under no illusion that our position has shifted on the numbers, particularly given the hostile and unhelpful view that the French now seem to be taking. Nor should he give the French the impression that, following Monday's abortive meeting, we are in any sense chasing them for a quick settlement. I know that the view of the Chancellor (currently en route to Washington) remains that the UK should "sit it out" rather than accept the terms that at present seem to be on offer.

3. These caveats also apply to the suggestion of a further possible meeting between the Prime Minister and President Mitterrand. Although I can see that there may be some advantage in renewing contact and reasserting a common wish to reach a satisfactory settlement during the French Presidency, it would again undermine our negotiating position if the French thought we were chasing too hard. And certainly, as I think you acknowledged, any renewal of negotiation at this level would be counter-productive unless the ground had been very carefully prepared before hand and the French were prepared to withdraw from the hard and obstructive line that Dumas is now taking.

4. If you think that Davignon is under any illusions as to our present position, it would be as well to have another word with him. So far as a meeting with Mitterrand is concerned, some further discussion with you and the FCO would be helpful if this is to go forward.

Yours ever
J. B. Unwin

J B UNWIN

cc Sir C Tickell) FCO
Mr Renwick)
Sir M Butler - UKREP
Mr Coles - No 10

COPY FOR

Euro for Budget Pt 24

2

PRIME MINISTER

Foreign Secretary's Statement on the Foreign Affairs Council

Attached is the text of the Foreign Secretary's statement on the Foreign Affairs Council today. This was a pretty low key occasion following a fairly technical and flat statement. The Opposition made much of another failure to achieve a settlement and quoted, in particular, the very brief period of time during the Council which was devoted to the Budget problem and the fact that the 1983 refunds were not discussed at all. Robin Cook also referred to your alleged failure to meet President Mitterand. There was little evidence of great parliamentary interest at this stage.

11 April 1984

TO BE CHECKED AGAINST DELIVERY

STATEMENT BY THE RT HON SIR GEOFFREY HOWE QC MP ON THE FOREIGN AFFAIRS COUNCIL, LUXEMBOURG, 9/10 APRIL

With permission, Mr Speaker, I should like to make a statement about the Foreign Affairs Council which I attended in Luxembourg on the 9th and 10th of April. I was accompanied by my right hon Friend the Minister for Trade.

The Council had a brief discussion on follow-up to the European Council. It was agreed that further work on the text on control of Community expenditure, on which provisional agreement was reached at the European Council, should be remitted to the Council of Ministers (Finance). On budgetary imbalances, I made clear our determination to work for a satisfactory agreement. There was, however, no substantive discussion and no agreement was reached on this occasion. Until agreement is reached on an equitable solution, there can be no question of agreement on our part to any increase in the own resources ceiling.

The President of the Commission made a statement on the financial situation in the Community in which he said that expenditure in the current financial year was expected to exceed the budget provision by about 2.5 billion ecu. The United Kingdom's position on this issue was made clear by my right hon Friend the Minister of Agriculture in the Agriculture Council on the 31st of March and by a formal entry in the minutes of that Council.

The Council resolved the main outstanding difficulties on the proposed Common Commercial Policy Regulation. It was agreed that the Regulation along with a package of 15 measures providing common Community safety and technical standards for industrial products should be formally adopted, subject, in our case, to a parliamentary scrutiny reserve on two of the directives.

In company with other Member States and the Commission, we strongly urged Ireland to withdraw its objection to the conclusion of a further five-year agreement on imports of New Zealand butter to the Community.

There was a discussion in preparation for the forthcoming Ministerial meeting on the Lome Convention.

A successful joint meeting with Ministers from the member countries of the European Free Trade Association (EFTA) was held on the 9th of April, following the establishment on the 1st of January 1984 of full free trade in industrial goods between the Community and the countries of EFTA.

A cooperation Council with Egypt was held to consider progress and prospects in economic, technical and financial cooperation.

At the Ministerial Conference with Spain agreement was reached on some aspects of external relations, and on the issue of patents.

Ministers of the Ten also agreed a statement on recent events in Chile. I am arranging for a copy of this to be placed in the Library of the House. We also discussed the export of certain chemicals to Iran/Iraq in the light of the UN Secretary-General's report on the use of chemical weapons in the Iran/Iraq war.

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Ref. A084/1149

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the meeting of the Council of Ministers (Foreign Affairs) on 9-10 April. The discussion on the reform of the financing system for the Community was brief and unproductive. The Chairman (Monsieur Cheysson) gave the impression of a total blockage, caused by the United Kingdom's unwillingness to move from the position taken at the European Council. The Foreign and Commonwealth Secretary made clear that the Commission should take the opportunity to help to find agreement on the threshold and rate of compensation which would result from the base figure. Monsieur Thorn, for the Commission, was not helpful but we know that Mr Davignon is in any event intending to discuss ideas again with the French, and possibly others, this week. The discussion which the Foreign and Commonwealth Secretary had with Monsieur Dumas, the French Minister for European Affairs, showed that the French reaction is now extremely guarded and that they are moving away from the system included in the Presidency text. He did undertake, however, to consider Mr Davignon's ideas. The Foreign and Commonwealth Secretary will indicate to the Cabinet that he now has two principal concerns: how to get the negotiations moving again (the key to this lies with the French Presidency) and how to convince other member states that we are not being as obstinate and obstructive as is being suggested.

2. The Commission also made a statement in the Council that expenditure in 1984 was now forecast to be running about 2,500 million ecu above the budget provision. The budget provision cannot be increased because of the 1 per cent VAT ceiling. The Commission will be considering next week what proposals they might make. Their proposals will be discussed at the next Foreign Affairs Council on 14-15 May. The United Kingdom will need to decide before then how to respond. The main ideas which the Commission are considering are:

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(a) national contributions;

(b) borrowing from one or more of the central banks of member states; or

(c) delaying repayments to member states of the 10 per cent administrative refund of levies and duties.

None of these proposals appears acceptable to us and in our view they would all require the unanimous agreement of member states. The most likely result in practice is that expenditure will simply be pushed off into 1985 and subsequently into 1986.

3. The Council of Ministers reached agreement on the common commercial policy regulation, which the Secretary of State for Trade and Industry will welcome, and on the linked package of harmonisation directives. It also adopted a fairly innocuous declaration on the Greek memorandum. In the margins of the Council there was a Ministerial meeting with the EFTA countries to mark 10 years of EC/EFTA trade collaboration (complete industrial free trade has now been achieved); a Ministerial negotiating session with Spain at which the United Kingdom position on patents was accepted; and a Ministerial co-operation meeting with Egypt. The Ten also agreed to keep one another informed about, and to attempt to co-ordinate, national measures to prevent the export to Iran and Iraq of chemicals which might be used to make chemical weapons.

4. On 5 April there was an informal meeting of Social Affairs Ministers which the Minister for Social Security (Dr Boyson) attended. There was a general discussion of the problems of financing social security benefits.

5. On 9 April The Queen formally opened the joint European Torus (JET) fusion project at Culham, at which President Mitterrand was also present.

6. With the approach to Easter, no Ministerial meetings have been planned for the next week.

RTA

ROBERT ARMSTRONG

11 April 1984

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Qz.03674

A.J.C. 10/4
f.a.

NOTE FOR THE RECORD

REFORM OF THE COMMUNITY'S FINANCES

As he had agreed, Mr Davignon spoke to me this morning about the next steps. I explained that, at the meeting between the Foreign and Commonwealth Secretary and Monsieur Dumas, although Monsieur Dumas had taken no commitments on substance, he had undertaken to consider carefully the proposals which Mr Davignon would be putting forward. In these circumstances, I advised Mr Davignon that it was worthwhile, in the United Kingdom's view, for him to again make contact with the French. He said that he would do so this week. I warned Mr Davignon that if the French came forward with any variations on the system which involved a time limit, this would not be acceptable to us.

2. I told Mr Davignon that I expected that there would be further discussion in London today about a possible meeting between the Prime Minister and President Mitterrand. Such a meeting would not be of a negotiating kind but would have the objective of seeking a common determination to settle the outstanding issue during the French Presidency. Mr Davignon said that his personal view was that a meeting this week would be too soon but that thereafter it ought to be a positive element in association with his own efforts.

D F Williamson

D F WILLIAMSON

11 April 1984

cc: Mr Coles, No 10
Mr Bone, FCO
Sir Robert Armstrong

Sir Michael Butler, UKREP

Sir C Tickell) FCO
Mr Renwick)

Mr Unwin, H M Treasury

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SENT 10 APR 1984

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FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL 9/10 APRIL : FOLLOW-UP TO EUROPEAN COUNCIL

SUMMARY

1. BRUSQUE PRESIDENCY ATTEMPT TO GIVE IMPRESSION OF TOTAL BLOCKAGE CAUSED BY UK UNWILLINGNESS TO MOVE FROM POSITION TAKEN AT EUROPEAN COUNCIL. UK STRESSED NEED FOR COMMISSION TO TAKE THE OPPORTUNITY TO HELP FIND AGREEMENT ON THRESHOLD AND RATE OF COMPENSATION IN ADDITION TO BASE FIGURE. COMMISSION WOULD NOT OPENLY COMMIT ITSELF TO MAKING A PROPOSAL BUT HINTED AT READINESS TO DO SO IF THEY WERE CERTAIN THAT ALL COULD AGREE. PRESIDENCY INTENTIONS TOTALLY UNCLEAR.

DETAIL

2. CHEYSSON (PRESIDENCY) NOTED THAT FINANCE MINISTERS ON 2 APRIL HAD EXPRESSED THE WISH TO DEAL WITH THE BUDGET DISCIPLINE TEXT AND

~~HAD EXPRESSED THE WISH TO DEAL WITH THE BUDGET DISCIPLINE TEXT AND~~
ASK FOR AGREEMENT THAT THEY SHOULD NOW BE ASKED TO GIVE THEIR OPINION ON ITS IMPLEMENTATION IN DETAIL. (HE REFERRED SPECIFICALLY TO THE 20 MARCH EUROPEAN COUNCIL TEXT, NOT THE DRAFT COUNCIL RESOLUTION TABLED ON 27 MARCH). ON BUDGETARY IMBALANCES HE NOTED THE INFORMATION SUPPLIED BY THE COMMISSION FOR THE ECOFIN COUNCIL AND THE LATTER'S REQUEST FOR MORE. THAT WAS USEFUL BUT DID NOT CARRY MATTERS FORWARD. NINE DELEGATIONS HAD TRIED TO MAKE SUGGESTIONS ON 27 MARCH, BUT THESE HAD ALL BEEN WITHDRAWN WHEN THEY HAD PROVED UNACCEPTABLE, TAKING MATTERS BACK TO WHERE THEY HAD BEEN ON 20 MARCH. IF THE OTHER DELEGATIONS HAD NOTHING NEW TO SAY, HE SAW NO POINT IN FURTHER DISCUSSION.

3. YOU SAID THAT IT HAD BEEN CLEAR~~ED~~ AT THE END OF THE 27 MARCH MEETING THAT A CRITICAL, DIFFICULT POINT HAD BEEN REACHED. SO THE COMMISSION HAD BEEN GIVEN A MANDATE TO SEE IF THEY COULD BRIDGE THE GAP. YOU HOPED THAT THEY WOULD HAVE BEEN ABLE TO MAKE A PROPOSAL, BUT IF THEY WERE NOT YET IN A POSITION TO DO SO YOU THOUGHT IT WOULD BE UNHELPFUL TO INTERRUPT THEIR CONSIDERATION BY A FURTHER SUBSTANTIVE DISCUSSION. THIS SHOULD WAIT UNTIL THE COMMISSION WERE ABLE TO GO FORWARD. THORN (COMMISSION) SAID THAT THE COMMISSION HAD NO PROPOSAL TO MAKE AND INSISTED THAT THE COMMISSION HAD BEEN GIVEN NO MANDATE: INDEED GENSCHER HAD SAID THAT IT COULD NOT HAVE ONE UNTIL AFTER THE ECOFIN COUNCIL. BUT HE ARGUED THAT ON 27 MARCH EVERYONE HAD AGREED ON COMPENSATION FOR THE UK IN THE FIRST YEAR OF 1,000 MECU AND THAT THE SYSTEM SHOULD BE INTRODUCED IN 1985. ECOFIN HAD LOOKED AT THE EXPLANATORY FIGURES, NOW IT WAS A MATTER OF AGREEING ON A BASE FIGURE. THE COMMISSION WOULD ONLY MAKE A PROPOSAL IF IT WAS CERTAIN THAT ALL COULD AGREE ON THE FIGURE. A COMPLICATION WAS THAT HE HAD FORMED THE IMPRESSION FROM HIS CONTACTS IN LONDON EARLIER IN THE DAY THAT MITTERRAND WAS ALSO IN CONTACT WITH CERTAIN PARTIES.

4. CHEYSSON AGREED THAT THE COMMISSION HAD RECEIVED NO MANDATE: INDEED THORN HAD REMINDED THE COUNCIL THAT THE COMMISSION DID NOT NEED A MANDATE. HE THEN ARGUED THAT THE ONLY VALID PROPOSITION OF THE 9 DELEGATIONS REMAINING ON THE TABLE WAS KOHL'S IDEA OF 5 YEARS AT 1000 DURING WHICH THE FRG WOULD PAY TWO THIRDS OF ITS CONTRIBUTION TO BE FOLLOWED BY THE INTRODUCTION OF THE SYSTEM WITH THE FRG MAKING ITS FULL CONTRIBUTION. WHEN THE COMMISSION'S LATER PROPOSAL OF 2 YEARS AT 1,000 FOLLOWED BY THE SYSTEM HAD BEEN WITHDRAWN ON 20 MARCH, THE THREE DELEGATIONS WHICH HAD SUPPORTED IT HAD REVERTED TO THEIR POSITION OF 850 MECU. ON 27 MARCH THE ONLY AGREEMENT HAD BEEN ON 1,000 MECU FOR ONE YEAR. THE UK HAD MERELY REPEATED ITS POSITION OF 1,000 IN THE FIRST YEAR PLUS 1250 AS THE BASE FIGURE FOR THE SYSTEM, THOUGH IT WAS NOT CLEAR WHETHER THAT 1250 WAS THE ACTUAL FIGURE FOR 1985 OR THE 1983 BASIS ON WHICH THE 1985 FIGURE WOULD BE ESTABLISHED.

5. YOU SAID THAT ON 27 MARCH YOU HAD SUGGESTED THAT THE COMMISSION MIGHT BE ABLE TO PLAY A ROLE IN FINDING A COMPROMISE: THIS WAS MORE AN OPPORTUNITY THAN A MANDATE TO ACT AS HONEST BROKER. ON THE BASIS OF THE SYSTEM NOW ON THE TABLE, IT WAS NECESSARY TO SETTLE NOT JUST THE NOTIONAL 1983 FIGURE BUT ALSO THE THRESHOLD AND THE RATE OF COMPENSATION ABOVE THE THRESHOLD. YOU WERE READY TO LISTEN TO ANYTHING THE COMMISSION MIGHT COME UP WITH: WERE THEY WILLING TO

~~THE NOTIONAL 1983 FIGURE BUT ALSO THE THRESHOLD AND THE RATE OF COMPENSATION ABOVE THE THRESHOLD. YOU WERE READY TO LISTEN TO ANYTHING THE COMMISSION MIGHT COME UP WITH: WERE THEY WILLING TO~~ HELP? THORN SAID THAT THE COMMISSION POSITION WAS THAT, ON THE BASIS OF PAGES 11 AND 12 OF THE EUROPEAN COUNCIL DRAFT CONCLUSIONS, THEY WOULD SEE WHETHER A MOMENT OCCURRED WHEN THEY COULD ADVANCE A FIGURE WHICH MIGHT HELP TO RESOLVE THE ISSUE. THE COMMISSION HAD NO OBLIGATION TO DO SO BUT NEITHER COULD IT BE STOPPED FROM DOING SO.

6. GENSCHER AGREED WITH CHEYSSON THAT, IF THE UK COULD NOT MOVE, DISCUSSION WAS A WASTE OF TIME. HE THOUGHT THAT THE COMMISSION SHOULD PRODUCE A FURTHER INFORMATION REQUEST AT THE ECOFIN COUNCIL, PARTICULARLY AS TO HOW THE SYSTEM WOULD AFFECT THE FRG. FINANCE MINISTERS SHOULD WORK NOT ONLY ON BUDGETARY DISCIPLINE BUT ALSO ON BUDGETARY IMBALANCES ONCE FOREIGN MINISTERS HAD DECIDED THE BASE FIGURE, AS KOHL HAD REQUESTED AT THE EUROPEAN COUNCIL. CHEYSSON SEEMED TO ACCEPT THIS, BUT YOU POINTED OUT THAT THE ECOFIN COUNCIL HAD EXPRESSLY DISAVOWED ANY NEGOTIATING ROLE. IT WOULD NOT BE ENOUGH FOR THE FOREIGN AFFAIRS COUNCIL TO HAVE AGREED THE BASE FIGURE ALONE. THERE WAS A REAL RISK OF IMMEDIATE DISAGREEMENT THEREAFTER ON THE THRESHOLD AND THE RATE OF COMPENSATION. THAT WAS WHY YOU HOPED THE COMMISSION COULD HELP.

7. DE KEERSMAEKER (BELGIUM) AGREED THAT THE ECOFIN COUNCIL SHOULD TAKE ON WORK ON THE BUDGETARY DISCIPLINE CHAPTER BUT RECALLED THAT BELGIUM HAD DIFFICULTIES WITH THE PRESENT TEXT AND COULD NOT BE ASSUMED TO HAVE ACCEPTED IT. HE DOUBTED WHETHER IT WAS RIGHT TO DIVIDE UP WORK ON WHAT HAD HITHERTO BEEN A PACKAGE. CHEYSSON DENIED THAT THIS WAS HIS INTENTION. DECISIONS WOULD BE TAKEN BY THE EUROPEAN COUNCIL OR, BYT DELEGATION, BY THE FOREIGN AFFAIRS COUNCIL. BUT THE ECOFIN COUNCIL COULD COMPLETE ITS ADVICE ON TECHNICAL ASPECTS BOTH ON BUDGETARY DISCIPLINE, TAKING ACCOUNT OF THE BELGIAN POINT, AND ON BUDGETARY IMBALANCES, FOR INSTANCE ON THE RELATIONSHIP BETWEEN THE THRESHOLD AND THE RATE OF COMPENSATION AND THE DEFINITION OF VAT SHARE. WITH THAT HE ABRUPTLY BROUGHT DISCUSSION TO AN END.

FCO ADVANCE TO:-
FCO - PS PS/MR RIFKIND TICKELL RENWICK FAIRWEATHER WALL
CAB - WILLIAMSON STAPLETON DURIE
TSY - UNWIN MORTIMER
NO10 - COLES

UKREP BRUSSELS DIST : BUTT BROUCHER FULL DIST

FCO PASS SAVING TO LISBON MADRID

MAUD

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2

PRIME MINISTER

You mentioned this morning that you had seen press reports about remarks allegedly made by the Secretary of State for Northern Ireland concerning the European Budget.

Attached is the Press Release for what seems to be the relevant occasion. What was actually said at the meeting however we cannot of course be sure.

9 April 1984

CONSERVATIVE PARTY NEWS SERVICE

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32 Smith Square,
London SW1P 3HH

RT. HON. JAMES PRIOR, M.P.

Release Time: 14.45 Hours/FRIDAY 6th April, 1984 247/84

Extract from a speech by the Rt. Hon. James PRIOR, M.P., (Waveney), Secretary of State for Northern Ireland, in Salisbury on Friday, 6th April, 1984.

The argument about the European Budget is not just - or even primarily - about Britain's excessive net contribution. It goes much wider than that. The Community must be able to show that the projects which it funds are yielding good value for money and are subject to scrutiny equal to that to which national public expenditure is subjected; and it must ensure that no country has to bear an inequitable share of financing the Community's activities. It is not just that the United Kingdom has raised the issue and is demanding action, reforms must be implemented in the name of equity and common sense. I hope that after the long years of negotiations a breakthrough is not far from grasp.

It is however, undeniable that the disputes over the Budget and the painfully slow rate at which improvements have been made to the Common Agricultural Policy have dissipated much political energy. As we all recognise the Community is about a lot more than a Budget which absorbs only about 1% of the Gross Domestic Product of the Community's Member States. Now more than ever the Community needs to regain its vision. Western Europe is faced with huge and intractable problems - particularly in maintaining employment and in enhancing our competitivity vis-a-vis the United States, Japan and the newly industrialised countries. Only through working together can we combat many of these problems.

/The Community

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The Community is central to our ability to influence events in the world around us and to our prosperity. Thus although we may need from time to time to take a fairly robust line with our partners, we must continually stress our wholehearted commitment to the success of the European enterprise. The price of a failure on the part of the Ten to take full advantage of the Community framework would be high now, and incalculable for future generations.

Conservatives are ambitious and realistic Europeans. The Community is a unique framework of great value now but also of enormous potential for the future. On occasion it may generate conflict between its members but this is only to be expected when countries come together to solve their problems through co-operation and joint endeavour. But the important thing to remember is that the Community is a problem-solving not a problem-creating body. It is the greatest achievement of the post-war statesmen who with faith, and believing in the effectiveness of international co-operation, established the major international institutions. The Community's achievements are already considerable and with sufficient political will and leadership the European idea can be carried forward and made a reality. This remains the objective of the Government and of the Conservative Party.

END.

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N BPM

AT 9/4

4 RO

Secretary of State for Trade and Industry

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9 April 1984

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Whitehall
London SW1

D Geoffrey,

CAPITAL ALLOWANCES: TRANSITIONAL ARRANGEMENTS FOR CERTAIN REGIONAL PROJECTS - HANDLING OF THE COMMISSION

Thank you for your minute of 2 April. I have also seen Nigel Lawson's letter of the same date.

2 I am a little concerned that our desire not to give the Commission the impression that their request causes us particular concern might be a little inconsistent with instructing Sir Michael Butler to speak to Andriessen. But I am content to be guided by your advice.

3 My officials will be circulating shortly, for clearance by officials at the Treasury, Foreign and Commonwealth Office and Cabinet Office, a draft speaking note for Sir Michael Butler to draw on.

4 I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

JH1AEQ

EURO Poli Budget Pt24

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CONFIDENTIAL

PS/EST.
Sir P. Middleton
Mr Littler.
Mr Unwin.
Mr Fitchew
Mr Bostock.
Miss Court.
Mr Mortimer. Mr Peet,

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

6 April 1984

Roger Bone Esq
Private Secretary to the
Foreign and Commonwealth Secretary

Dear Roger

FOREIGN AFFAIRS COUNCIL 9-10 APRIL: TEXT ON BUDGETARY DISCIPLINE, BUDGETARY IMBALANCES AND OWN RESOURCES

The Chancellor has asked me to write to you about the state of play reached on the latest Presidency texts setting out the Council's Conclusions on budgetary discipline, budgetary imbalances and own resources.

As we understand it, if and when an agreement on the budgetary imbalances figures is reached, a rapid decision might then be called for as to whether to adopt these texts as the basis for the further work on implementation which would then be needed.

The Chancellor recognises that these texts represent a considerable advance on those which were circulated immediately before the European Council and that it may not now be easy to get any further changes in them. Nevertheless, there are a number of changes to the texts which he considers to be in the highly desirable category to improve our prospects of getting really effective arrangements on budgetary discipline and of ensuring that we do not lose out on some of the important details in the budgetary imbalances system.

He has accordingly asked me to send with this letter a note attaching a full list of the amendments which have been put forward at different times in the discussions by Treasury officials. The list also includes the amendments suggested by the Chancellor in his minute of 23 March.

The Chancellor recognises that the question of whether and how hard to press these amendments depends on a tactical judgement of the circumstances, in particular of whether this might lead to other major elements in the texts being re-opened. Subject to this judgement, which can only be made at the time, the Chancellor's view is that if an opportunity to introduce these amendments into the text arises, it is very desirable to take it. If, however, the Foreign Secretary decides against putting forward the amendments to the text, he considers that the alternative would be to reserve our position on the four major points of substance listed in the attached note and to make clear how we proposed to interpret them in the course of the subsequent negotiations on implementation of the texts.

Copies of this letter go to John Coles at No 10, Ivor Llewelyn (MAFF), David Williamson (Cabinet Office) and Sir Michael Butler (UKREP).

Yours sincerely
David Peretz

D L C PERETZ

NOTE ON PRESIDENCY TEXTS

The most important points in the present texts which need to be corrected are:-

Budget Discipline

(i) the implication that the Commission's version of the financial guideline for agricultural spending is approved as it stands and is not open to further amendment. (There are a number of loopholes in the Commission's text which need to be closed if it is to be a really effective constraint on agricultural spending);

(ii) the absence of any suggestion that the arrangements on the guideline and on budgetary discipline in general will need to be embodied in the Community's budgetary procedures or made binding on the three institutions.

Budgetary Imbalances

(iii) the definition of our VAT share is ambiguous and may be interpreted by others on the "assiette" basis not on the "payments" basis. The Chancellor reserved our position on this point at the ECOFIN Council on Monday;

(iv) the description of the financing arrangements might leave us liable to contribute to any refunds for Germany at our full VAT rate rather than at the reduced "ticket moderateur" rate.

These points are covered by the four "high priority" amendments set out below.

CONSOLIDATED LIST OF AMENDMENTS TO PRESIDENCY TEXTS

I. BUDGETARY DISCIPLINE (SN728/84, 27 MARCH)

i. High priority amendment:

Paragraph 2, second indent, last sentence: Rephrase as "The necessary provisions will be laid down taking account of the proposals in the Commission document on financial guidelines concerning the common agricultural policy".
Paragraph 3: Add at end: "so that they are embodied in the Community's budgetary procedures in a form binding on all three institutions. These texts will be acted on by the Council (ECOFIN)".

ii. Other amendments:

Paragraph 1, third sub-paragraph: delete "within their respective powers";
Paragraph 2, second indent first sentence: Insert after "markets" "as shown in the FEOGA guarantee section of the Budget (titles 1 and 2)".
Paragraph 2, second indent, third sentence: Delete "exceptional circumstances, in particular in connection with"
Paragraph 2, third indent first sentence: Delete "as defined in article 203 of the Treaty of Rome".

II. BUDGETARY IMBALANCES (SN 641/3/84, 20 MARCH)

i. High priority amendments

Paragraph 3, first indent: Replace by: "The basis for correction is the difference between the share in value added tax payments before abatement during the year and the share in Community Budget expenditure allocated to Member States in accordance with present criteria, multiplied by the total of such expenditure".

Paragraph 3, fourth indent: Add at the end "and count towards their basis for correction".

ii. Other amendments

Paragraph 3, first line: After "correction" insert "including its application in respect of 1984".

Paragraph 5: Insert "on the revenue side" after "1985" in the last sentence.

Paragraph 3, fifth indent: Delete the last four words.

III. OWN RESOURCES AND ENLARGEMENT (SN 728/84, 27 MARCH)

i. High priority amendment:

Paragraph 1: Substitute "In accordance with" for "[In agreement with]".

Euro for Budget

26 APR 1984

SUBJECT
cc MASTER

R M

FILE cc: LPS
(FCS)
HMT
CW
CO

10 DOWNING STREET

From the Private Secretary

6 April, 1984

REFORM OF THE COMMUNITY'S FINANCING

The Prime Minister held a meeting with the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip yesterday in order to discuss the latest information on the reform of the Community's financing system and, in particular, Mr. Davignon's possible initiative. Sir Robert Armstrong, Mr. Hannay, Mr. Fitchew and Mr. Williams were also present.

The Foreign and Commonwealth Secretary said that Sir Michael Butler had been pressing Mr. Davignon to improve the ideas which he had put forward, in particular by reducing the threshold, by increasing the rate of compensation on the first band from 77 per cent to 80 per cent and by lowering the point at which the second band (90 per cent compensation) came into effect. It remained true that the arrangements now under discussion did gain for the United Kingdom the central features of the safety net. He was profoundly worried that, if a settlement were not reached, the valuable features of the system in the Presidency's text would slip away. The reports from Sir Michael Butler (texts of telegrams circulated under cover of Mr. Williamson's minute of 5 April) indicated that we had some chance of improving the original suggestions put forward by Mr. Davignon.

The Prime Minister said that she had been studying the figures and that she had noted that, although the United Kingdom would continue to be a substantial net contributor even under the revised arrangement, seven member states would apparently still be very substantial beneficiaries. She remained of the view that this was inequitable.

The Chancellor of the Exchequer said that it was important to keep up the pressure for improvements. Changes in the first band of compensation would be useful but the level of the threshold itself was also important. He considered that Mr. Davignon was sensible to present any new suggestions not in terms of a single reference figure for 1983 but in terms of the threshold and rates of compensation to be built into the system. These elements must, of course, be satisfactory.

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JC

The Lord President of the Council said that if the new arrangement did give the United Kingdom a system which would stop the annual haggling about a United Kingdom refund and if there were an improvement over the position at the end of the European Council (for example, by basing the new system on 1100 million ecu refund on 1983 figures), in his view it could be justified to British public and parliamentary opinion.

In discussion there was a detailed examination of the estimated financial consequences of the original and possible modified proposals by Mr. Davignon (these figures are set out in doc. 1 annexed to Mr. Williamson's minute of 4 April). There was also some discussion of the basis for the forecasts of the excess share of levies and duties. In the light of this discussion the Prime Minister re-emphasised her determination that the United Kingdom should not agree to anything less than the results corresponding to at least 1100 million ecu on 1983 figures and that we should continue to seek the improvements in Mr. Davignon's original position. It was agreed that instructions should be given to the United Kingdom Permanent Representative in Brussels that the United Kingdom continued to demand the improvements which had been already indicated to Mr. Davignon and that in our view it was now right for the Commission to take the responsibility for a suitably improved proposal.

I am copying this letter to the Private Secretaries of other Ministers present and to Richard Hatfield (Cabinet Office).

AJC

R. Bone, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

Type letter pl.

AJC 6/4.

Qz.03664

MR COLES

REFORM OF THE COMMUNITY'S FINANCING

I attach a draft record of the meeting which the Prime Minister held with Ministers chiefly concerned yesterday.

D F Williamson

D F WILLIAMSON

6 April 1984

CONFIDENTIAL

Draft letter from Mr Coles to Sir. Bone.

REFORM OF THE COMMUNITY'S FINANCING

The Prime Minister held a meeting with the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip yesterday in order to discuss the latest information on the reform of the Community's financing system and, in particular, Mr Davignon's possible initiative. Sir Robert Armstrong, Mr Hannay, Mr Fitchew and Mr Williamson were also present.

2. The Foreign and Commonwealth Secretary said that Sir Michael Butler had been pressing Mr Davignon to improve the ideas which he had put forward, in particular by reducing the threshold, by increasing the rate of compensation on the first band from 77 per cent to 80 per cent and by lowering the point at which the second band (90 per cent compensation) came into effect. It remained true that the arrangements now under discussion did gain for the United Kingdom the central features of the safety net. He was profoundly worried that, if a settlement were not reached, the valuable features of the system in the Presidency's text would slip away. The reports from Sir Michael Butler (texts of telegrams circulated under cover of Mr Williamson's minute of 5 April) indicated that

/we

we had some chance of improving the original suggestions put forward by Mr Davignon.

3. The Prime Minister said that she had been studying the figures and that she had noted that, although the United Kingdom would continue to be a substantial net contributor even under the revised arrangement, seven member states would apparently still be very substantial beneficiaries. She remained of the view that this was inequitable.

4. The Chancellor of the Exchequer said that it was important to keep up the pressure for improvements. Changes in the first band of compensation would be useful but the level of the threshold itself was also important. He considered that Mr Davignon was sensible to present any new suggestions not in terms of a single reference figure for 1983 but in terms of the threshold and rates of compensation to be built into the system. These elements must, of course, be satisfactory.

5. The Lord President of the Council said that if the new arrangement did give the United Kingdom a system which would stop the annual haggling about a United Kingdom refund and if there were an improvement over the position at the end of the European Council (for example, by basing the new system on 1100 million ecu refund on 1983 figures), in his view it could be justified to British public and parliamentary opinion.

/6.

6. In discussion there was a detailed examination of the estimated financial consequences of the original and possible modified proposals by Mr Davignon (these figures are set out in doc. 1 annexed to Mr Williamson's minute of 4 April). There was also some discussion of the basis for the forecasts of the excess share of levies and duties. In the light of this discussion the Prime Minister re-emphasised her determination that the United Kingdom should not agree to anything less than the results corresponding to at least 1100 million ecu on 1983 figures and that we should continue to seek the improvements in Mr Davignon's original position. It was agreed that instructions should be given to the United Kingdom Permanent Representative in Brussels that the United Kingdom continued to demand the improvements which had been already indicated to Mr Davignon and that in our view it was now right for the Commission to take the responsibility for a suitably improved proposal.

PM 6/4.

I am copying this letter to the Private Secretaries of other Ministers present and to Sir Robert Armstrong.

R M

cc MASTER SET

FILE cc:- LPO
HMT
CWO
CO

10 DOWNING STREET

From the Private Secretary

5 April, 1984

REFORM OF COMMUNITY'S FINANCING

The Prime Minister discussed with the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip yesterday the state of the negotiation on the reform of the Community's financing. Mr. Unwin, Mr. Hannay and Mr.Williamson were also present.

The Foreign and Commonwealth Secretary said that the text which the French Presidency had presented to the European Council included the reformed financing system which the United Kingdom had been seeking. This text had now survived through a difficult Foreign Affairs Council and through the Finance Council. In his judgement, however, it would soon slip away if there were no settlement. The United Kingdom had won agreement to an ad hoc arrangement for one year only, with the system thereafter. The question at issue now was to establish, by derivation from a base figure, the essential financial elements, in particular the level of the threshold and the rate of compensation above the threshold. At the European Council the United Kingdom had moved on the figures. Nonetheless, a substantial disagreement remained, since the United Kingdom was ready to agree to a refund of 1250 million ecu (1983 figures) while the Nine were camped on their figures of 1000 million ecu. There was no possibility of shifting the Nine by direct contacts with the member states or with the French Presidency. It seemed, however, that Mr. Davignon might now be willing to persuade the Commission to put forward a solution based on a 1100 million ecu refund (1983 figures). The main elements of the possible Davignon proposal were a low threshold, with compensation above the level of the threshold at a rate of 77 per cent of the net contribution (the aim of this part of the proposal was to give the United Kingdom a refund of about two-thirds); and, in relation to increased expenditure, compensation to the United Kingdom at a rate of 90 per cent of the net contribution.

/He

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He took the view that, if we missed the opportunity to clinch a deal, the package would soon begin to disintegrate and there would be little chance of reinstating it at the June European Council. If there were a break of this kind, we should expect that the other member states would move to take action independently of the United Kingdom. We might in due course be offered some patched up system which was worse than the present proposal.

The Prime Minister said that the United Kingdom could show no advantage from the very large net contribution, even after adjustment, which it would be making to the Community. We should not forget that we still had the card of refusing to agree to an increase in own resources. What we needed was a really effective safety net. The argument should not be based only on a two-thirds refund. The issues were very important. The present proposal would be very difficult to justify to parliamentary and public opinion and we should continue to work for a better offer.

The Chancellor of the Exchequer said that it would be advantageous to complete the deal during the French Presidency. As far as the present suggestions were concerned, he considered that a marginal rate of contribution of 10 per cent (compensation of 90 per cent) was acceptable. If we could get the rate of compensation up to 80 per cent (rate of contribution 20 per cent) for the first band, this part of the package would be reasonable. He was concerned, however, that by basing himself on 1100 million ecu (1983 figures), Mr. Davignon was producing results which were significantly below the figure for which the Prime Minister had stood out at Brussels.

The Lord President of the Council said that it was difficult to judge the merits of the rather complex technical suggestions now being put forward. It was, however, necessary to consider whether, if we missed an opportunity to settle the question now and later obtained a worse deal, there might not be considerable criticism.

In discussion it was pointed out that other member states took the view that, if the United Kingdom were to receive refunds of the order of two-thirds, this would be a very formidable protection for the United Kingdom. In relation to additional expenditure of the Community, the United Kingdom would be paying about 2 per cent, while France and Germany would be paying much more than 20 per cent. Although the figures for the estimated net contribution of the United Kingdom, after adjustment, were high, this partly reflected assumptions about the changes in our gross domestic product; there would be no significant change in the percentage of our gross domestic product which we contributed to the Community.

In discussion of tactics, it was agreed that the United Kingdom Permanent Representative in Brussels should seek to gain improvements in the proposal tentatively suggested by Mr. Davignon, in particular in relation to the percentage compensation on the first band and on the size of the first band. He should be instructed to say that, while Mr. Davignon's proposal represented some progress, the United Kingdom required arrangements based on a figure higher than 1100 million ecu (1983 figures). Ministers would review the matter again in the light of his further contacts with Mr. Davignon and the assessment of what President Mitterrand might be prepared to accept and advocate to other member states.

I am copying this letter to the Private Secretaries of the other Ministers who attended the meeting and to Richard Hatfield (Cabinet Office).

A. J. COLES

R. Bone, Esq.,
Foreign and Commonwealth Office

Type letter pl.

AR 5/4.

CONFIDENTIAL

Qz.03663

~~MR COLES~~

REFORM OF COMMUNITY'S FINANCING

--- I attach a draft record of the Prime Minister's meeting yesterday.

D F Williamson

D F WILLIAMSON

5 April 1984

CONFIDENTIAL

Draft letter from Mr Coles to Mr Bone

REFORM OF COMMUNITY'S FINANCING

The Prime Minister discussed with the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip yesterday the state of the negotiation on the reform of the Community's financing. Mr Unwin, Mr Hannay and Mr Williamson were also present.

2. The Foreign and Commonwealth Secretary said that the text which the French Presidency had presented to the European Council included the reformed financing system which the United Kingdom had been seeking. This text had now survived through a difficult Foreign Affairs Council and through the Finance Council. In his judgement, however, it would soon slip away if there were no settlement. The United Kingdom had won agreement to an ad hoc arrangement for one year only, with the system thereafter. The question at issue now was to establish, by derivation from a base figure, the essential financial elements, in particular the level of the threshold and the rate of compensation above the threshold. At the European Council the United Kingdom had moved on the figures. Nonetheless, a substantial disagreement remained, since the

/United Kingdom

United Kingdom was ready to agree to a refund of 1250 million ecu (1983 figures) while the Nine were camped on their figure of 1000 million ecu. There was no possibility of shifting the Nine by direct contacts with the member states or with the French Presidency. It seemed, however, that Mr Davignon might now be willing to persuade the Commission to put forward a solution based on a 1100 million ecu refund (1983 figures). The main elements of the possible Davignon proposal were a low threshold, with compensation above the level of the threshold at a rate of 77 per cent of the net contribution (the aim of this part of the proposal was to give the United Kingdom a refund of about two-thirds); and, in relation to increased expenditure, compensation to the United Kingdom at a rate of 90 per cent of the net contribution.

3. He took the view that, if we missed the opportunity to clinch a deal, the package would soon begin to disintegrate and there would be little chance of reinstating it at the June European Council. If there were a break of this kind, we should expect that the other member states would move to take action independently of the United Kingdom. We might in due course be offered some patched up system which was worse than the present proposal.

4. The Prime Minister said that the United Kingdom could show no advantage from the very large net contribution, even after adjustment, which it would be making to the Community. We should not forget that we still had the card of refusing to agree to an increase in own resources. What we needed

 /was

was a really effective safety net. The argument should not be based only on a two-thirds refund. The issues were very important. ~~and worth fighting for.~~ The present proposal would be very difficult to justify to parliamentary and public opinion and we should continue to work for a better offer.

5. The Chancellor of the Exchequer said that it would be advantageous to complete the deal during the French Presidency. As far as the present suggestions were concerned, he considered that a marginal rate of contribution of 10 per cent (compensation of 90 per cent) was acceptable. If we could get the rate of compensation up to 80 per cent (rate of contribution 20 per cent) for the first band, this part of the package would be reasonable. He was concerned, however, that by basing himself on 1100 million ecu (1983 figures), Mr Davignon was producing results which were significantly below the figure for which the Prime Minister had stood out at Brussels.

6. The Lord President of the Council said that it was difficult to judge the merits of the rather complex technical suggestions now being put forward. It was, however, necessary to consider whether ~~He was concerned, however,~~ ~~that~~ if we missed ~~the~~ an opportunity to settle the question now and later obtained a worse deal, there might not be considerable ~~were be justifiable~~ criticism.

7. In discussion it was pointed out that other member states took the view that, if the United Kingdom were to receive refunds of the order of two-thirds, this would be a very formidable protection for the United Kingdom. In relation to additional expenditure of the Community, the

/United Kingdom

United Kingdom would be paying about 2 per cent, while France and Germany would be paying much more than 20 per cent. Although the figures for the estimated net contribution of the United Kingdom, after adjustment, were high, this partly reflected assumptions about the changes in our gross domestic product; there would be no significant change in the percentage of our gross domestic product which we contributed to the Community.

while Mr. Davignon's proposal represented an ~~improvement~~ some progress,)

8. In discussion of tactics, it was agreed that the United Kingdom Permanent Representative in Brussels should seek to gain improvements in the proposal tentatively suggested by Mr Davignon, in particular in relation to the percentage compensation on the first band and on the size of the first band. He should ~~not~~ be ~~authorised~~ instructed to say that, the United Kingdom ~~accepted~~ required arrangements based ~~on~~ on a figure higher than 1100 million ecu (1983 figures). ~~but should seek improvements.~~ Ministers would review the matter again in the light of his further contacts with Mr Davignon and the assessment of what President Mitterrand might be prepared to accept and advocate to other member states.

9. I am copying this letter to the private secretaries of the other Ministers who attended the meeting and to Sir Michael Hatfield.

AD
5/4.

CONFIDENTIAL

Qz.03662

MR COLES

REFORM OF THE COMMUNITY'S FINANCING

As the attached telegrams from our Permanent Representative in Brussels are very relevant to the meeting of Ministers at 4.45pm this afternoon, I annex the texts for the information of those who will be present.

I am sending copies to Janet Lewis-Jones (Lord President of the Council's Office), Roger Bone (FCO), John Kerr (Treasury), Murdo Maclean (Chief Whip's Office) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

5 April 1984

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GRS

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D E D I P
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DESKBY 050800Z FCO
FM UKREP BRUSSELS 041845Z APR 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 1247 OF 04 APRIL 1984
INFO PRIORITY (PERSONAL FOR AMBASSADORS) BRUSSELS COPENHAGEN
THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG ATHENS

MY TELNO 1210
BUDGET IMBALANCES

1. I SAW DAVIGNON THIS EVENING. I SAID THAT THE PROCEDURE HE HAD ENVISAGED OF US TELLING HIM THAT WE COULD LIVE WITH A CERTAIN SOLUTION AND HIM THEN GOING TO THE FRENCH ON THAT BASIS WOULD NOT DO. BRITISH MINISTERS COULD NOT MOVE FROM THE PRIME MINISTER'S POSITION AT THE EUROPEAN COUNCIL WITHOUT KNOWING WHERE THE FRENCH AND GERMANS WERE READY TO MOVE TO. MOREOVER, THE PRIME MINISTER, ON HEARING OF THE IDEAS HE HAD PUT TO ME ON MONDAY, HAD INSTRUCTED ME TO SAY THAT WHILE SHE CONSIDERED THAT SOME PROGRESS HAD BEEN MADE, SHE FELT VERY STRONGLY THAT MORE WAS REQUIRED. THIS WAS PARTICULARLY THE CASE WITH THE BASE AMOUNT, IE 1100, WHICH SHE DID NOT CONSIDER A REASONABLE FIGURE.

2. DAVIGNON SAID THAT THIS WAS EXTREMELY DISAPPOINTING. IN THE PAST 36 HOURS HE HAD HAD AN OPPORTUNITY TO TALK TO KOHL AND LUBBERS. ITS WAS HIS IMPRESSION THAT THEY MIGHT BE BROUGHT UP TO A FIGURE OF 1100 WITH SOME DIFFICULTY, BUT HE SAW NO POSSIBILITY OF THEM GOING BEYOND AND THE COMMISSION WOULD NOT AGREE TO PROPOSE IT. LESS AUTHORITATIVE REACTIONS FROM PARIS (HE HAD NOT INFORMED THE FRENCH OF HIS CONVERSATIONS WITH US) SUGGESTED SOME READINESS TO MOVE THERE TOO, BUT RELUCTANCE TO GO TO 1100 AND GREAT DETERMINATION NOT TO GO BEYOND A COMPENSATION RATE OF TWO THIRDS OF THE VAT SHARE/EXPENDITURE SHARE GAP.

3. DAVIGNON THEN ASKED ABOUT THE OTHER ELEMENTS IN HIS IDEAS. I EXPLAINED THAT HIS IDEAS ABOUT ENLARGEMENT WERE NOT ACCEPTABLE. HE DID NOT PURSUE THEM. I SAID THAT WE MIGHT BE PREPARED TO CONSIDER A FRANCHISE PROVIDED THAT IT WAS ABSOLUTELY CLEAR THAT ITS ONLY SIGNIFICANCE WAS AS A TRIGGER FOR BRINGING THE SYSTEM INTO OPERATION AND THAT THE WORKING OF THE SYSTEM WOULD NOT BE AFFECTED IN ANY WAY ONCE IT WAS TRIGGERED. IF THERE WAS TO BE A FRANCHISE WE THOUGHT THAT 0.075 PER CENT OF GDP WOULD BE MORE APPROPRIATE THAN 0.1 PER CENT. DAVIGNON CONFIRMED OUR INTERPRETATION OF THE FRANCHISE'S EFFECT AND SEEMED READY TO CONSIDER 0.075 PER CENT.

CONFIDENTIAL

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4. AT THIS POINT DAVIGNON SAID THAT HE HAD JUST HEARD THAT PRESIDENT MITTERRAND AND THE PRIME MINISTER WOULD BE MEETING ON MONDAY. HE THOUGHT IT ESSENTIAL TO FIND SOME BASIS ON WHICH THEY COULD DISCUSS THE SUBJECT CONSTRUCTIVELY. IF THEY CONFRONTED EACH OTHER FROM ENTRENCHED POSITIONS OF 1000 AND 1250 MILLION ON THE BASIS OF THE 1983 FIGURES THEY WOULD GET NOWHERE. HE WAS INCLINED TO RECOMMEND THAT THE BASIS FOR DISCUSSION SHOULD NO LONGER BE THE REFUND ON THE BASIS OF 1983 FIGURES BUT THE PARAMETERS OF THE SYSTEM IN ITS FIRST YEAR OF OPERATION, IE:-

A. THE THRESHOLD:

B. THE FRANCHISE:

C. THE COMPENSATION RATE:

D. THE POINT AT WHICH THERE WOULD BE A MOVE TO A HIGHER COMPENSATION RATE (THE STEP), AND

E. WHAT THE HIGHER PERCENTAGE SHOULD BE.

HE ASKED WHAT OUR POSITION WOULD BE ON THESE MATTERS.

5. I SAID THAT I WOULD ENQUIRE WHETHER THE PRIME MINISTER WOULD BE READY TO MOVE TO THIS BASIS. IT FOLLOWED FROM MY INSTRUCTIONS THAT:-

A. WE WOULD WANT A LOWER THRESHOLD THAN 0.05 PER CENT OF GDP. DAVIGNON NOTED THAT THIS RAISED THE 1100M QUESTION.

B. WE WOULD WANT A COMPENSATION RATE BETWEEN THE THRESHOLD AND THE STEP OF 80 PER CENT. DAVIGNON SAID THAT THIS WOULD BE VERY DIFFICULT. IT WOULD BE HARD TO GET 77 PER CENT.

C. HIS FIGURE OF 2,300 MECU FOR OUR 1985 GAP WAS UNREALISTICALLY HIGH AND WE COULD NOT ACCEPT IT. OUR BEST ESTIMATE, GIVEN THAT OWN RESOURCES WOULD NOT HAVE BEEN INCREASED IN 1985, WAS 2,000 MECUS. HE SAID THAT HE COULD COME DOWN A BIT. HE HAD MENTIONED 2,300 MECUS BECAUSE IT WAS NECESSARY TO EXPRESS THE STEP IN TERMS OF A PERCENTAGE OF GDP AND .4 PER CENT WAS ABOUT 2,300. AFTER SOME DISCUSSION, IN WHICH HE REFUSED TO ENVISAGE SETTING A FIGURE RATHER THAN A PERCENTAGE SINCE THIS WOULD COMPLICATE THE SYSTEM AS FAR AS OTHERS WERE CONCERNED, HE SAID THAT .35 PER CENT OF GDP (2030 MECUS ON THE COMMISSION'S ESTIMATE) MIGHT JUST BE POSSIBLE. HE WOULD HAVE TO THINK ABOUT IT.

D. I THOUGHT THAT WE WOULD PROBABLY BE ABLE TO ACCEPT A MARGINAL RATE OF COMPENSATION OF 90 PER CENT PROVIDED THAT IT BEGAN AT 2030.

6. DAVIGNON SAID THAT HE WOULD HAVE TO REFLECT OVERNIGHT AND TO TALK TO ORTOLI AND THORN. HE THOUGHT THAT THEY WOULD AGREE THAT THE ONLY WAY FORWARD NOW WAS TO REPLACE THE LAST PARAGRAPH OF PAGE 12 OF THE PRESIDENCY CONCLUSIONS WITH A NEW PARAGRAPH SETTING OUT THE PARAMETERS OF THE SYSTEM. HE WOULD BE VERY GRATEFUL TO KNOW WHETHER THE COMMISSION COULD RECOMMEND TO PRESIDENT MITTERRAND THAT HE SHOULD DISCUSS THE MATTER WITH MRS THATCHER ON THIS BASIS.

CONFIDENTIAL

7. GRATEFUL FOR INSTRUCTIONS.

8. FCO PLEASE DISTRIBUTE TO NAMED ADVANCE ADDRESSEES ONLY.

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PS/PUS
Sir C. Tickell
Mr Hannay
Hd/ECD(I) (2)
Mr Wall/ECD(I) FCO
~~Mr Williamson~~
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Mr Dunie
Mr Unwin
Mr Fitchew } H.M. Treasury
Mr Mortimer
Mr Coles / No 10. D.S.

CONFIDENTIAL
DEDIP
DESKBY 051200Z
FM UKREP BRUSSELS 051045Z APR 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 1253 OF 5 APRIL
AND TO PRIORITY (PERSONAL FOR AMBASSADORS) BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG, ATHENS.

MY TELNO 1247: BUDGET IMBALANCES.

1. AS REPORTED BY TELEPHONE TO HANNAY, I SPOKE TO DAVIGNON AGAIN THIS MORNING. HE SAID THAT HE WAS GLOOMY AS A RESULT OF OUR CONVERSATION LAST NIGHT. HE WAS STILL CONVINCED THAT EVERY POSSIBLE NERVE SHOULD BE STRAINED IN ORDER TO GET AN AGREEMENT ON MONDAY/TUESDAY. BUT THIS WOULD NOT WORK UNLESS PEOPLE KNEW BEFOREHAND WHAT WAS GOING TO HAPPEN. TO HAVE A BAD DISCUSSION IN THE COUNCIL WOULD BE THE WORST THING. ON THE OTHER HAND, TO POSTPONE AN ATTEMPT TO SETTLE TO SETTLE WOULD BE VERY DANGEROUS. THE GERMANS WOULD THEN INSIST ON FIXING THE ARRANGEMENTS FOR THEM AT THE SAME TIME. DISCUSSION ON THE HUMP WOULD HAVE BEGUN. EVERYBODY WOULD HAVE DONE THEIR SUMS. HE REMAINED CONVINCED THAT THE TIME TO CONCLUDE WAS NOW. SO WE MUST TRY TO SET UP A SITUATION IN WHICH A CONVERSATION BETWEEN THE PRIME MINISTER AND PRESIDENT

CONVERSATION BETWEEN THE PRIME MINISTER AND PRESIDENT MITTERRAND ON MONDAY COULD BE DECISIVE.

2. I EXPLAINED THAT NO MEETING HAD BEEN PLANNED AND THAT PRESIDENT MITTERRAND HAD NOT ASKED FOR ONE: THAT THE PRIME MINISTER HAD A HEAVY PROGRAMME IN LONDON AND COULD NOT THEREFORE GO TO CULHAM: AND THAT MY UNDERSTANDING WAS THAT NO. 10 AND THE ELYSEE WERE PROBABLY ABOUT TO AGREE THAT NO MEETING WOULD TAKE PLACE. DAVIGNON SAID THAT THIS WAS NOT THE STORY HE HAD HAD FROM THE ELYSEE WHICH WAS THAT THE PRESIDENT WOULD RATHER LIKE A MEETING BUT DID NOT WISH TO BE 'DEMANDEUR' FOR IT. HE APPEALED TO ME TO TRY TO MOVE THINGS TOWARDS A MEETING TAKING PLACE.

3. DAVIGNON SAID THAT HE HAD DISCUSSED THE SITUATION WITH ORTOLI AND THORN. THEY CONCLUDED THAT IT WAS NOT POSSIBLE FOR COMMISSIONERS TO GO TO MITTERRAND IN THE LIGHT OF OUR CONVERSATION LAST NIGHT. BUT THE COMMISSION WOULD RECOMMEND THAT WE SHOULD PROCEED ON THE BASIS IN PARAGRAPH 4 OF MY TELEGRAM UNDER REFERENCE. I INTERJECTED THAT WE HAD NOT YET GIVEN OUR VIEWS ON THIS IDEA. NOEL WOULD GO TO SEE BIANCO TOMORROW TO EXPLAIN THE POSITION. HE WOULD GIVE NOEL PRECISE INSTRUCTIONS. I SAID THAT I HOPED HE WOULD EXPLAIN TO NOEL THAT IT WAS VERY IMPORTANT TO MOVE THE THRESHOLD DOWN FROM .05 AS WELL AS GETTING THE OTHER POINTS WE HAD DISCUSSED RIGHT. DAVIGNON SAID THAT WE SEEMED TO BE DETERMINED IN EFFECT TO KEEP RAISING THE 1100M FIGURE. THE DEAL COULD ONLY BE DONE IF NONE OF THE PARTIES EVER BROUGHT IT UP AGAIN. HE ASKED ME TO STRESS JUST HOW CRUCIAL IT WAS NOT TO PUSH THE OTHERS TO THE POINT OF EXASPERATION BY DISCUSSING THE 1000/1100/1250M QUESTION. THE COMMISSION WERE WORKING VERY HARD AND BELIEVED THAT EVERYBODY WOULD FOLLOW A PRESIDENCY PROPOSAL ON MONDAY/TUESDAY IF ONE WERE MADE. BUT THE FRENCH WOULD NOT MAKE ONE AND THEN HAVE US REJECT IT AND RATCHET THEM UP FURTHER. FRENCH AND BRITISH LEADERS MUST NOW REACH AN UNDERSTANDING.

4. DAVIGNON HAS NOW LEFT BRUSSELS TILL LUNCH-TIME TOMORROW, THOUGH I CAN IF NECESSARY CONTACT HIM BY TELEPHONE. HE AND THORN WILL BE AT JET ON MONDAY, RETURNING TO LUXEMBOURG BY 1700H. HE SAID THAT IF IT WOULD HELP, THOUGH HE COULD NOT SEE HOW IT COULD, HE WOULD BE READY TO COME TO LONDON ON SUNDAY NIGHT.

FCO ADVANCE TO:

CONFIDENTIAL

Qz.03661

MR COLES

REFORM OF THE COMMUNITY'S FINANCING: COMMISSIONER DAVIGNON'S MODIFIED PROPOSALS

We have received a further telegram from Sir Michael Butler this morning. In the light of this I attach, for the meeting of Ministers at 4.45pm this afternoon, a short explanatory note on Commissioner Davignon's possible modified proposals.

I am sending copies to Janet Lewis-Jones (Lord President of the Council's Office), Roger Bone (FCO), John Kerr (Treasury), Murdo Maclean (Chief Whip's Office) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

5 April 1984

CONFIDENTIAL

REFORM OF THE COMMUNITY'S FINANCING: COMMISSIONER DAVIGNON'S MODIFIED PROPOSALS

Note by the Cabinet Office

1. Commissioner Davignon has been working to find a solution to the outstanding problem of reform of the Community's financing. He has based himself on the French Presidency text which, apart from the crucial question of the figures, is acceptable to the United Kingdom and has been largely agreed. The proposals he is now considering concern only the figures and the means of arriving at them.

2. As a result of the Foreign Affairs Council on 27 March, the following elements may be considered to be agreed, and are not affected by the latest proposals:-

(i) The system for correcting imbalances is to be incorporated into a revised Own Resources Decision, which is equivalent to a Treaty and can only be changed by unanimous agreement of member states and their national parliaments.

(ii) The correction of a member state's contribution is to be made by reducing the member state's VAT contribution in the following year. This removes the difficulties associated with ad hoc refunds which were implemented through extra payments and can be blocked by both the European Parliament and other member states.

(iii) The system is to come fully into operation in respect of 1985 after a transitional year in which the United Kingdom would receive refunds of 1000 million ecu in respect of 1984.

/(iv)

(iv) The system would be based on the difference between a member state's share of VAT payments to and its share of receipts of Community expenditure from the Community's allocated budget. This is known as the VAT share/ expenditure share gap.

3. On the figures to form the basis of the permanent correcting mechanism, the United Kingdom was arguing in the final stages of the European Council for a system which would have produced a rebate in reference to 1983 of 1250 million ecu. The other member states would not consider a figure higher than 1000 million ecu.

4. The significance of these figures was only that they would set the limits within which the threshold and the rate of compensation to the United Kingdom above the threshold would be determined. Commissioner Davignon intends to cut through this argument by moving straightaway to an agreement on the threshold and the rate of compensation. The two important points are:-

(i) the threshold above which compensation is paid;

(ii) the rate of the compensation to a member state whose VAT share/expenditure share gap exceeds its threshold (the so-called "ticket moderateur" element).

If the trade-off between the threshold and the compensation rate is agreed at the outset, this will limit the ability of other member states to try to fix the details of the system in a way which will work to the disadvantage of the United Kingdom.

5. Commissioner Davignon's modified proposal is expected to contain these elements:-

(i) a threshold which would be set at 0.05% of GDP (ie 250 million ecu). This is lower (ie more favourable) than the United Kingdom itself proposed but it must of course be seen in conjunction with the other elements of the proposal;

/(ii)

(ii) a compensation rate of 80% up to a VAT share/expenditure share gap of 0.35% of GDP (2030 million ecu) and a rate of 90% for any remaining gap above that figure. This means that, on the first band, the United Kingdom would contribute 20% of its normal share (ie it would be paying about 4% of the Community expenditure) and on the second band (all the increasing Community expenditure) the United Kingdom would contribute 10% of its normal share (ie it would pay about 2% of the Community expenditure);

(iii) there would be a qualifying condition (the "franchise"): in order to benefit from compensation a member state would have to have a VAT share/expenditure share gap at least equivalent to 0.075% of its gross domestic product (ie about 375 million ecu for the United Kingdom in 1983). At this level this condition would not be likely to affect the operation of the system for the United Kingdom. It would, however, benefit us by ensuring that the German limit was high.

6. The estimated effect of Commissioner Davignon's probable modified proposal is shown in the attached tables.

Cabinet Office

5 April 1984

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REFUNDS AND NET CONTRIBUTIONS 1985-1988

(All figures in million ecu)

Year	Unadjusted Net Contribution	Davignon Proposal modified so that compensation of 80% up to 0.35% of GDP with 90% compensation thereafter		
		(i) Treasury figures		
		Refund	% Refund	Adjusted Net Contribution
1985	2310	1334	58	976
1986	3090	1964	64	1126
1987	3390	2170	64	1220
1988	3530	2223	63	1307
Total	12320	7691	62	4629
		(ii) Cabinet Office figures *		
1985	2310	1346	58	964
1986	3090	2003	65	1087
1987	3390	2237	66	1153
1988	3530	2319	66	1211
Total	12320	7905	64	4415

* The "Treasury figures" assume that levies and duties grow in line with GDP while the "Cabinet Office figures" assume that they remain at the average level of the last 5 years.

REBATES AND NET CONTRIBUTIONS 1985-1988

SITUATION UNDER COMMISSIONER DAVIGNON'S LATEST PROPOSAL

(Threshold 0.05% of GDP; Compensation rate of 80% up to 0.35% of GDP, and 90% thereafter)

0.04

1. **Figures in million ecu**

(i) Treasury figures*

Year	Unadjusted Net Contribution	Rebate	% Rebate	Adjusted Net Contribution
1985	2310	1334	58	976
1986	3090	1964	64	1126
1987	3390	2170	64	1220
1988	3530	2223	63	1307
Total	12320	7691	62	4629

(ii) Cabinet Office figures*

Year	Unadjusted Net Contribution	Rebate	% Rebate	Adjusted Net Contribution
1985	2310	1346	58	964
1986	3090	2003	65	1087
1987	3390	2237	66	1153
1988	3530	2319	66	1211
Total	12320	7905	64	4415

2. **Figures in £ million**

(i) Treasury figures*

Year	Unadjusted Net Contribution	Rebate	% Rebate	Adjusted Net Contribution
1985	1363	787	58	576
1986	1823	1159	64	664
1987	2000	1280	64	720
1988	2083	1312	63	771
Total	7269	4538	62	2731

(ii) Cabinet Office figures*

Year	Unadjusted Net Contribution	Rebate	% Rebate	Adjusted Net Contribution
1985	1363	794	58	569
1986	1823	1182	65	641
1987	2000	1320	66	680
1988	2083	1368	66	715
Total	7269	4664	64	2605

*The "Treasury figures" assume that levies and duties grow in line with GDP while the "Cabinet Office figures" assume that they remain at the average level of the last 5 years.

Prime Minister

Duty Clerk 4/4

CONFIDENTIAL

Qz.03660

MR COLES

THE COMMUNITY BUDGET: ESTIMATES OF UNITED KINGDOM NET CONTRIBUTIONS AND REFUNDS

I submit

- doc 1. A table, prepared by the Treasury, showing estimates of United Kingdom net contributions and refunds in 1985-88 expressed in million ecu. For the purpose of these estimates it is assumed that the agricultural "overspending" is pushed forward from 1984 and then financed on the Community budget in the normal way. We cannot yet be sure whether this will be the case. It is also assumed that the United Kingdom's excess share of levies and duties will rise in proportion to GDP. This assumption is not accepted by all Departments.

- doc 2. The main elements of doc 1 expressed in £.

- doc 3. A comparative selection of the figures from doc 2 and a calculation of the effects of the Davignon proposal on some different assumptions, in particular that the United Kingdom excess share of levies and duties will not rise in proportion to GDP.

- doc 4. An estimate of the net benefits and contributions of other member states, using the same material as in doc 1.

- doc 5. An estimate of the amount which other member states will contribute towards the United Kingdom refunds.

/doc 6.

- doc 6. A summary of the Davignon proposal.

2. I am sending copies to Janet Lewis-Jones (Lord President of the Council's Office), Roger Bone (FCO), John Kerr (Treasury) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

4 April 1984

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doc 1.

REFUNDS AND NET CONTRIBUTIONS 1985-1988

(All figures in million ecu)

Year	Unadjusted Net Contribution	System to give 1250 million ecu refund in 1983 (95% compensation rate)			System to give 1250 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1520	66	790	1518	66	792
1986	3090	2208	71	882	2176	70	914
1987	3390	2434	72	956	2397	71	993
1988	3530	2505	71	1025	2471	70	1059
Total	12320	8667	70	3653	8562	69	3758

Year	Unadjusted Net Contribution	System to give 1100 million ecu refund in 1983 (95% compensation rate)			System to give 1100 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1342	58	968	1340	58	970
1986	3090	2015	65	1075	1983	64	1107
1987	3390	2226	66	1164	2189	65	1201
1988	3530	2280	65	1250	2246	64	1284
Total	12320	7863	64	4457	7758	63	4562

Year	Unadjusted Net Contribution	Davignon Proposal (with marginal compensation of 77% up to 0.4% of GDP and 90% thereafter)				Davignon Proposal modified so that compensation of 80% up to 0.33% of GDP with 90% compensation thereafter . 0·5			
		Refund	% Refund	Adj. Net Contribution		Refund	% Refund	Adjusted Net Contribution	
1985	2310	1283	56	1027	50	1333	58	977	788
1986	3090	1866	60	1224	163	1979	64	1111	850
1987	3390	2064	61	1326	125	2185	64	1205	906
1988	3530	2107	60	1423	124	2238	63	1292	1307
Total	12320	7320	59	5000		7735	63	4585	

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Notes on doc 1.

1. These figures assume that the United Kingdom's excess share of levies and duties over our VAT share rises in proportion to GDP.

2. On this basis, the VAT share/expenditure share gap in 1985 is 1964 mecu (0.33% of GDP) and not 2300 mecu (0.4% of GDP) as assumed by Davignon.

3. The VAT share/expenditure share gap is assumed to be 1622 mecu in 1983 (ie on a payments basis)

4. If Davignon proposal is modified only to increase the lower rate of compensation from 77% to 80% without changing the point at which the higher rate of compensation commences, the benefit would be about 70 mecu a year. The average refund over 1984-88 would be 61.5%

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doc 2.

REFUNDS AND NET CONTRIBUTIONS 1985-88

(All figures in million £)

Year	Unadjusted Net Contribution	A: System to give 1250 million ecu refund in 1983 (95% compensation rate)			B: System to give 1250 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	1363	897	66	466	896	66	467
1986	1823	1303	71	520	1284	70	539
1987	2000	1436	72	564	1414	71	586
1988	2083	1478	71	605	1458	70	625

Year	Unadjusted Net Contribution	C: System to give 1100 million ecu refund in 1983 (95% compensation rate)			D: System to give 1100 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	1363	792	58	571	791	58	572
1986	1823	1189	65	634	1170	64	653
1987	2000	1313	66	687	1291	65	709
1988	2083	1346	65	737	1325	64	758

Year	Unadjusted Net Contribution	E: Davignon Proposal			F: Davignon Proposal (modified)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	1363	757	56	606	787	58	576
1986	1823	1101	60	722	1168	64	655
1987	2000	1218	61	782	1289	64	711
1988	2083	1268	60	839	1321	63	762

A. 1250 million ecu refund on 1983 figures (90% compensation rate)

£ million

	Refund	%	Adjusted net contribution
1985	896	66	467
1986	1284	70	539
1987	1414	71	586
1988	1458	70	625

(Treasury figures)

B. 1100 million ecu refund on 1983 figures

(Davignon modified proposal)

1985	786	58	576
1986	1168	64	655
1987	1289	64	711
1988	1320	63	762

(Treasury figures)

C1. 1100 million ecu refund on 1983 figures

(Davignon proposal)

£ million

	Refund	%	Adjusted net contribution
1985	757	56	606
1986	1101	60	722
1987	1218	61	782
1988	1243	60	839

(Treasury figures)

C2. 1100 million ecu refund on 1983 figures

(Davignon proposal)

1985	778	57	585
1986	1139	62	684
1987	1270	64	729
1988	1315	63	767

(Cabinet Office figures)

Difference between system on base A and system on base C1

£146 million a year over 5 years

Difference between system on base A and system on base B

£97 million a year over 5 years

DOCUMENT 4

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ESTIMATES OF APPROXIMATE NET BALANCES OF

OTHER MEMBER STATES AFTER ADJUSTMENT (IMPROVED DAVIGNON)

All figures in million ecu

	1985	1986	1987	1988	
Belgium	200	200	200	200	
Denmark	350	400	450	450	
Germany	-2900	-3700	-4150	-4450	
Greece	1000	1250	1350	1350	
France	-350	-500	-650	-850	
Ireland	825	1000	1100	1100	
Italy	1250	1500	1550	1500	
Luxembourg	300	350	400	400	
Netherlands	350	400	400	400	
Spain and Portugal	--	200	600	1200	
U.K.	977	1111	1205	-1292	1300

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NOTES ON DOCUMENTS 4 AND 5

The figures in the documents 4 and 5 can only be approximate, particularly as far as the figures on net balances are concerned. In particular, the following assumptions were made:-

1. The net balances before adjustment are based on the 1983 net balances, increased for other member states in line with the increase in the Community budget. The United Kingdom's net contribution, however, has on Treasury assumptions increased faster than the rate of growth of the Community budget.

2. Member states contribute to United Kingdom refunds in proportion to their 1983 VAT shares. Thus Germany contributes fully to United Kingdom refunds, and Spain and Portugal do not contribute.

3. The net costs of enlargement (and thus the net benefits to Spain and Portugal combined) are assumed to be 200 mecu in 1986, 600 mecu in 1987, 1200 mecu in 1988.

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ESTIMATES OF APPROXIMATE CONTRIBUTIONS

TO UNITED KINGDOM REFUNDS

All figures in million ecu

	1985	1986	1987	1988
Belgium	60	90	100	100
Denmark	30	50	60	60
Germany	490	720	800	820
Greece	30	40	40	40
France	380	580	640	650
Ireland	20	20	30	30
Italy	230	340	380	390
Luxembourg	--	10	10	10
Netherlands	90	130	140	150
Spain and Portugal	--	--	--	--

NOTES ON DOCUMENTS 4 AND 5

The figures in the documents 4 and 5 can only be approximate, particularly as far as the figures on net balances are concerned. In particular, the following assumptions were made:-

1. The net balances before adjustment are based on the 1983 net balances, increased for other member states in line with the increase in the Community budget. The United Kingdom's net contribution, however, has on Treasury assumptions increased faster than the rate of growth of the Community budget.

2. Member states contribute to United Kingdom refunds in proportion to their 1983 VAT shares. Thus Germany contributes fully to United Kingdom refunds, and Spain and Portugal do not contribute.

3. The net costs of enlargement (and thus the net benefits to Spain and Portugal combined) are assumed to be 200 mecu in 1986, 600 mecu in 1987, 1200 mecu in 1988.

doc 6.

The Davignon proposal

The Davignon proposal is understood to be as follows -

1.	Qualifying condition	The VAT share/expenditure share gap must be at least 0.1% of gross domestic product (500 million ecu on 1983 figures)
2.	UK threshold	0.05% of gross domestic product (250 million ecu on 1983 figures). Any unadjusted net contribution up to the threshold is not compensated.
3.	Rate of compensation above the threshold (band 1)	77% of the United Kingdom's unadjusted net contribution will be compensated, up to 0.4% of gross domestic product (about 2300 million ecu)
4.	Rate of compensation above the threshold (band 2)	90% of the United Kingdom's unadjusted net contribution will be compensated above band 1.
5.	Enlargement	Reference to be clarified or deleted.
6.	No other changes in the Presidency text.	

European Budget

10 DOWNING STREET

AT - AO 5/4.

the Chancellor will be accompanied at the 16.45 meeting by Geoffrey Fitchew.

CST 5/4/84.

Ref. A084/1062

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the state of the negotiations on the reform of the Community's financing system and, in particular, on his meeting with Commissioners Davignon and Ortoli on 1 April. Commissioner Davignon has put to the United Kingdom a proposal which would confirm the reformed system set out in the Presidency's text and would be based on a United Kingdom refund of about 1,100 million ecu (1983 figures). More specifically, the Commission proposal would give:

(a) a low basic limit for the United Kingdom expressed as a percentage of Gross Domestic Product (on 1983 figures this would be about 250 million ecu);

(b) a "ticket moderateur" in two bands: on the first band we would get compensation of 77 per cent (contribution 23 per cent) and on the second band we would get compensation of 90 per cent (contribution 10 per cent).

We estimate that the United Kingdom would receive refunds, when the system was fully running (eg 1986-88) of between 60 and 64 per cent of our unadjusted net contribution, depending on the assumptions taken about the way in which Community expenditure and our unadjusted net contribution might develop. After sounding out the United Kingdom, Monsieur Davignon's intention is to try to persuade the French Presidency to take over the responsibility for selling the proposal to other member states. This would have to be completed before the Foreign Affairs Council next week (9-10 April). You discussed the attitude the United Kingdom might take to such a proposal with the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer today.

2. The Chancellor of the Exchequer may report on the Finance Council on 2 April. There was a technical discussion on budgetary imbalances. The French Presidency deliberately kept the discussion in a low key, in order not to affect any possible settlement next week. No member state showed any disposition to question the system. There was no substantive discussion of the figures, it being understood that, if this question was to be resolved, it would have to be done at or before the Foreign Affairs Council next week. On other matters the Council agreed to increase intra-Community duty free travel allowances to 280 ecu. After the Chancellor had underlined the United Kingdom's reservations about the proposals for European innovation loans, it was agreed that consideration should be given to a scheme without interest rate subsidies and, if no agreement were possible by June, the proposal would be shelved.

3. The Minister of Agriculture, Fisheries and Food will report that the Agriculture Council on 30-31 March agreed the 1984 farm price proposals and associated measures, including the introduction of the super levy on milk and arrangements for dismantling monetary compensatory amounts. The common support prices were reduced by about 1.5 per cent. In real terms, the price reduction over the Community as a whole is between 2 and 3 per cent. The United Kingdom made clear its reservation on the financial consequences of the settlement, inserting a formal statement in the minutes that in our view agricultural expenditure in 1984 must be accommodated within the existing budgetary provision. The Irish milk question was settled by giving the Republic of Ireland a basis of 1983 production levels plus 260,000 tonnes and an assurance of no decrease in future years; Northern Ireland was given an additional quota of 65,000 tonnes. The United Kingdom succeeded in retaining the beef variable premium scheme, though at a rate reduced from 10.7p per kilogram to about 8.7p, and subject to clawing back the premium on exports. United Kingdom livestock producers have criticised the settlement both because of the milk super levy and because of the claw back of the beef variable

premium on exports. At the end of the Council a further two-month rollover of the arrangements for importing New Zealand butter was agreed. The Irish blocked a longer period but there is some indication that they are reconsidering their position.

4. There was an informal meeting of Transport Ministers on 2 April, at which the Secretary of State for Transport represented the United Kingdom. Although this produced some agreement on minor matters, there are no issues requiring a report to Cabinet.

5. The Foreign Affairs Council will meet on 9-10 April and will confirm whether or not the outstanding questions on the reformed financing system have been resolved.

6. The Queen and President Mitterrand will attend the formal opening of the Joint European TORUS at Culham on 9 April.

approved by ROBERT ARMSTRONG
and signed in his absence.
Lindsay Wilkinson

4 April 1984

2.51 010

A.J.C. 4/4.

4/4

NOTE OF A MEETING HELD AT 11 DOWNING STREET ON WEDNESDAY, 4 APRIL TO DISCUSS EC FUTURE FINANCING

Those present	Chancellor of the Exchequer	Foreign and Commonwealth Secretary
	Economic Secretary	Sir Michael Butler
	Mr Unwin	Sir Crispin Tickell
	Mr Fitchew	Mr Williamson
	Mr Mortimer	Mr Hannay

The meeting first discussed the line which Sir Michael Butler should take when he next saw Viscount Davignon, based on the draft circulated by Mr Hannay on 3 April. There was some discussion on whether the line on enlargement in paragraph 4 could be strengthened, given the Chancellor's report that Finance Ministers had apparently accepted at ECOFIN that the system itself dealt with the problem of enlargement. It was eventually concluded that the tone was about right, given that some Ministers who had not expressed a view may not have understood the point, and that Delors was not proposing to include it in his official report to M. Cheysson.

2. Sir Michael Butler said that they had been reassessing the impact of Viscount Davignon's "franchise" proposal. It now appeared that this was intended not as a minimum contribution, but as a "trigger" below which the system would not be allowed to operate. Once, however, a member state's contributions had passed the "franchise" line, the system would operate in respect of all its contributions above its threshold so that the resulting net adjusted contribution could indeed be below the "franchise".

3. The Chancellor said that there were a number of points in the Davignon proposal that represented gains to the UK, particularly the fact that figures had now been inserted for the rate of compensation. He was also content with the "franchise" proposal. What he saw as the major remaining defect of the system was that it said nothing about the German position. Although the United Kingdom was concerned primarily with its own contributions, it had been very clear at ECOFIN that other member states' attitude to any settlement would depend crucially on what it did for the Germans. He did not see any possibility of reaching a solution without addressing this problem, as it was not just the Germans who

were interested in it. He had been struck by the fact that there was very little discussion in the UK's internal papers of the system which we hoped would apply for Germany. Sir Crispin Tickell said that he had spoken at some length to the Germans the previous day; he felt that they were determined to stick on financing only 2/3 of the UK's refunds, but that it was possible they could be persuaded to accept a total refund of slightly over 1,000 mecus.

4. Sir Michael Butler said he thought the "franchise" idea had been intended solely to deal with the German problem. As he saw it, Davignon's idea was to present the Germans with a non-operable threshold. His idea was to try and leave the Germans isolated at the Foreign Affairs Council next week by getting the other member states to agree to the UK's settlement. Sir Michael accepted that this might not work, and that it was therefore crucial that the UK did not commit itself to the Davignon proposals before we knew they were acceptable to other member states.

5. The Chancellor said he thought it would be very difficult to persuade the House to accept a solution on the Davignon lines. He noted that the original proposals, over the period 1985-88, averaged an annual percentage refund of less than 60 per cent, and even taking account of the suggested variants in arriving at the 1100 mecu reference figure on the 1983 basis, this would reach only 63 per cent. He therefore felt that it was essential to devise a scheme that would bring the 1983 reference figure up to produce a system that would deliver at least a 2/3 refund. He felt the best way to make this acceptable to the other member states was to ensure that the regime for the Germans was correspondingly tougher.

6. The Foreign Secretary disputed that there was any realistic possibility of getting anything beyond 1100 mecu. The Germans themselves were still wedded to the idea of 1,000 mecu as the reference figure; the proposal of 1250 which Herr Tietmeyer had at one stage floated had never been formally on the table, and certainly was not now. Sir Crispin Tickell confirmed that phsychologically and politically the Germans would find it very difficult to move from the 1,000 mecu figure. The Chancellor suggested that they might move in response to French pressure, but the Foreign Secretary said he did not think this would in fact be forthcoming. The French Finance Ministry were now beginning to realise the implications for them in later years of the figures that were being talked about, and Monsieur Dumas' recent proposal of 900 mecu as the reference level had been strongly supported in the French Finance Ministry. He did not think that Viscount Davignon would

have proposed a reference figure of 1100 if he had not felt reasonably sure that the French would back him as far, but he did not think there was any realistic prospect of pushing them any further. Sir Michael Butler confirmed that the actual figures for refunds from 1985 onwards looked horribly large to other member states, and this lay behind the attempt by the French Finance Ministry to get away from any idea of an actual threshold and back to the idea of a percentage contribution for the UK. He was convinced that a reference figure of 11.00 and the two tier rate of compensation of 80 per cent and 90 per cent was the very maximum that could be squeezed out of the system.

7. The Foreign Secretary said he was very much afraid that if we failed to settle this question while it could still be said to be "in the context of the March Brussels Summit", the whole negotiation would collapse. He did not see the 1 per cent VAT ceiling as an unbeatable card; he thought the reaction of other member states would be to produce methods for circumventing the ceiling, perhaps by an increase in national financing, and to abandon any idea of future refunds for the UK. It was also suggesed that they could deny the UK its fair share of such community spending programmes as the regional and social funds. The Chancellor suggested that as President Mitterrand wanted the kudos of solving the problem, he would not allow this to happen before June. He suggested that the ultimate figure of 1100 or 1200 mecu as the reference figure would make very little difference to either his claims, if he got a settlement, to be the "saviour of Europe", or to the protests which would come from the Gaullists that the whole thing was a sell out, or to the reaction in the UK that the whole deal was unsatisfactory. The Foreign Secretary conceded that Mitterrand would be very glad to get a settlement, but that throughout the negotiations he had been operating a two-track policy; he had always been prepared, in the last resort, to abandon the UK if it looked as though a settlement acceptable to us would be unacceptable to him at home. Mitterrand had supported the UK hitherto, for example in putting the system into place and making a number of modifications to it that benefited the UK, but this was because he wanted a solution from the March European Council. Failure next week would almost certainly set the whole negotiation back to square one. There was no way that a reference figure of 1200 mecu could be represented in Europe as a compromise on our part. The Chancellor suggested that in accepting the Davignon proposal, the UK would be making a considerable compromise over the rate of compensation, but the Foreign Secretary said that this had never been a prominent element in public perception of the problem.

8. Mr Unwin said that although a difference of 100 mecu now might not appear very much, as it fed through into the system it would have an increasingly large effect. The Foreign Secretary maintained that as a percentage of the total refund, the gap between our optimum position and the Davignon proposal (if modified as we hoped) was still extremely small. Mr Hannay pointed out that the figure of levies and duties which had been included in the calculation, and which were the only ones that fed through on a one to one basis, had been set at a rather higher level than it was generally accepted they would reach. Mr Unwin countered by pointing out the very conservative assumptions that had been used for the growth of the EC Budget.

9. The Chancellor suggested that the Foreign Secretary was now urging acceptance of a deal rather worse than the one he had rejected the previous week. The Foreign Secretary pointed out that what had been on offer then had not included the system itself, as all that has been talked about was the figures. The political implications if the rest of the community did decide on an ad hoc increase in own resources were insupportable.

10. In conclusion, there was some further discussion as to how forthcoming Sir Michael Butler should be with Viscount Davignon, given the danger that if we seemed too pleased with the proposal, we would find it withdrawn and a tougher one substituted. It was agreed that we should give him no definite hint of acceptability at least until he could show that the other member states were also prepared to accept such a proposal. Sir Michael should stress that neither the Prime Minister nor the Chancellor were prepared to accept the idea at present, that he did how ever think it worth Davignon's while sounding other member states out, but that there would clearly be no question of the Prime Minister agreeing to anything until she could be reasonably sure that not only the Presidency but the Germans would also accept it.

JS

MISS J C SIMPSON

4 April 1984

APR 1984

Circulation

Those present

A J Coles Esq, 10 Downing Street

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ANNEX A

REFUNDS AND NET CONTRIBUTIONS 1985-1988

(All figures in million ecu)

Year	Unadjusted Net Contribution	A System to give 1250 million ecu refund in 1983 (95% compensation rate)			B System to give 1250 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1520	66	790	1518	66	792
1986	3090	2208	71	882	2176	70	914
1987	3390	2434	72	956	2397	71	993
1988	3530	2505	71	1025	2471	70	1059
Total	12320	8667	70	3653	8562	69	3758

Year	Unadjusted Net Contribution	C System to give 1100 million ecu refund in 1983 (95% compensation rate)			D System to give 1100 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1342	58	968	1340	58	970
1986	3090	2015	65	1075	1983	64	1107
1987	3390	2226	66	1164	2189	65	1201
1988	3530	2280	65	1250	2246	64	1284
Total	12320	7863	64	4457	7758	63	4562

Year	Unadjusted Net Contribution	E Davignon Proposal (with marginal compensation of 77% up to 0.4% of GDP and 90% thereafter)			F Davignon Proposal modified so that compensation of 80% up to 0.33% of GDP with 90% compensation thereafter		
		Refund	% Refund	Adj. Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1283	56	1027	1333	58	977
1986	3090	1866	60	1224	1979	64	1111
1987	3390	2064	61	1326	2185	64	1205
1988	3530	2107	60	1423	2238	63	1292
Total	12320	7320	59	5000	7735	63	4585

Additional expenditure
1985 - 88 compared with Tietmeyer 1347 mecu
Tietmeyer + 10% TM 1242 "
1100 + 5% TM 543 "
1100 + 10% " 438 "

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A J Coles
10 Downing St.

No

With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

Judith Simpson

Treasury Chambers,
Parliament Street,
S.W.1.

2.50

CONFIDENTIAL

A. J. C. 6/4.
p.a.

NOTE OF A MEETING HELD AT NO.11 DOWNING STREET ON TUESDAY, 3 APRIL, TO DISCUSS EC FUTURE FINANCING

Present	Chancellor of the Exchequer	Foreign and Commonwealth Secretary
	Economic Secetary	Sir Michael Butler
	Mr Unwin	David Williamson
	Mr Fitchew	David Hannay
	Mr Mortimer	
	Mr Peretz	

The Chancellor reported briefly on his conversations at the ECOFIN lunch the previous day. He stressed that he had found no disposition at all among his fellow Finance Ministers to challenge the assumption that a permanent system was needed to solve the question of the UK's contributions, and that the system which was now on the table was along the right lines.

2. The meeting then turned to detailed consideration of the proposals contained in UKREP telegrams 1219 and 1220. The Foreign Secretary said that he thought it important to reach a settlement as soon as possible, because the more time other Member states were given to look at the system, the less they would probably like it. He felt that we had taken the French as far as we could on the system itself, and the only question that remained to be settled was how far we could persuade them to go on the figures. He thought Viscount Davignon's proposal a valuable step in this direction. There were 3 questions that particularly deserved consideration: the calculation of the refund, the "franchise" and the timing of an eventual settlement.

Calculations

3. The Chancellor pointed out that the figures used to illustrate the Davignon scheme were defective in a number of respects. Not only were they adjusted so as to produce a refund of only 1100 mecu in 1983, but this had been done from a base of 1680 mecu, rather than the 1622 mecu which the UK had always claimed. This made the effective rate of compensation only 1040 mecu in 1983. Similarly, the correction base for 1985 was also

higher than that calculated by the UK. Sir Michael Butler suggested that the crucial elements in the scheme were the 3 successive thresholds. He did not think it was possible to persuade our partners

to accept a total refund of more than 1100 mecu but he suggested that internal adjustments to the figures could produce a scheme that was both more accurate and more satisfactory from the UK's point of view. This would involve arriving at the 1100 compensation on the 1983 basis by a combination of reducing the base to 1622 mecu and the compensation rate above the threshold to 80 per cent. Applying this 80 per cent compensation rate to the corrected base figure for 1985 of between 2,000 and 2,100 mecu would produce a final level of compensation of roughly $^{2}/_{3}$. The only other side effect of this would be that the higher 90 per cent marginal rate of contribution would be reached slightly quicker. The Chancellor pointed out that the House of Commons was not interested so much in the amount of the refund, as in the resulting net contributions. He therefore foresaw considerable difficulties in persuading them to agree to a scheme on these lines. Mr Unwin pointed out that the net effect in simple terms of this calculation would be to leave the UK with the basic compensation rate of 1100 mecu and a 10 per cent ticket moderateur, which was actually a worse deal than the Foreign Secretary rejected last week.

"The Franchise"

4. Sir Michael Butler explained that this element of Davignon's scheme was very much intended to cope with the problem of German refunds. As far as the UK was concerned, it would probably be a largely cosmetic exercise, but in the case of Germany, the idea would be to set such a large minimum net contribution that they might never qualify for a refund. The Chancellor said that he did not particularly like the ideas, and the Foreign Secretary concurred. The Chancellor thought it highly likely the Germans would see through the proposal, and he had also at ECOFIN found that the Danes and the Dutch were very anxious, before they signed up on any deal with the UK, to know how the Germans would be treated. He also suggested that there would be great difficulty in presenting the scheme to Parliament, even if it made no practical difference. It would look rather odd to begin talking about minimum contributions when the whole thrust of the UK's argument had up to now been to define our maximum contribution. Mr Fitchew also pointed out that the franchise figure was in addition to, and did not subsume, the basic VAT/own resources gap.

Timing

5. The Chancellor suggested that there was no need to rush into agreement on the basis of these figures or any others. President Mitterrand clearly urgently desired a settlement during his presidency of the Community, but this gave the UK up to 30 June to settle. The Foreign Secretary disagreed with this assessment. He pointed out that the momentum of the successive Foreign Affairs councils had depended considerably on being able to represent them as extensions of the Brussels Summit. This argument was becoming increasingly difficult to sustain, and unless a settlement were reached quickly, it would be widely argued that the Summit had finally collapsed, and any future negotiation would have to be ab initio. Sir Michael thought that although the Davignon scheme was susceptible to marginal improvement, there was little likelihood of making much more progress by 30 June would be possible by 9 April. He foresaw a considerable problem with delay in that it would allow other member states to focus on both the 1986 figures for the UK compensation, and the problem of the "hump" in CAP expenditure that would come at the end of 1984. The Chancellor reiterated the dangers he saw in appearing too keen for a settlement; he suggested that if it looked as if we would accept this deal, we would find it was no longer on offer and we would find ourselves pressed to accept something even less satisfactory. He therefore felt that the UK must continue to ask for more, whatever its private assessment of what was actually achievable, and that in particular she must insist on some increase in the 1100 mecu compensation on the basis of the 1983 figures. He also pointed out that the other arm of the great negotiation, the question of budgetary discipline, was also not yet in a satisfactory condition and that the French were at one with the UK on wishing for more work to be done on this.

JS

MISS J C SIMPSON
3 April 1984

Circulation

Those present

John Coles

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AU PREMIER MINISTRE DU ROYAUME UNI

MARGRET TATCHER

LONDON

AUX PREMIERS MINISTRES DES PAYS MEMBRES DE LA C.E

LA CONFEDERATION FISCALE EUROPEENNE , AU SEIN DE LAQUELLE

TRAVAILLENT LES CONSEILS FISCAUX D'EUROPE ET QUI VIENT DE FETER

SON 25EME ANNIVERSAIRE A EXPRIME LORS DE LA REUNION DE SON CON-

SEIL D'ADMINISTRATION A CANNES LE 2 AVRIL 1984 ,

SON ATTACHEMENT INDEFECTIBLE A L ' IDEE D'EUROPE

ET A SON DESIR DE PROMOUVOIR , DANS TOUS LES DOMAINES CETTE IDEE .

LA C.F.E. ADRESSE , AUX GOUVERNEMENTS DES ETATS MEMBRES , LA

DEMANDE

PRESSANTE DE POURSUIVRE LEURS EFFORTS POUR CONSOLIDER LA

COMMUNAUTE EUROPEENNE ET POUR PRESERVER LES CHANCES

DE L EUROPE , COMME GARANTIE DE NOS LIBERTES ,

MALGRE TOUTES LES DIFFICULTES QUI SE PRESENTENT ,

AUJOURD'HUI , A ELLE .

SALVATORE LECCE DI TESSANO

PRESIDENT DE LA CONFEDERATION FISCALE EUROPEENNE

COL 2/1984/25EME

AO

①

Prime Minister.

We have arranged for the Foreign Secretary and Chancellor (+ your usual team) to discuss paras. 5 to 8 with you tomorrow at 3.15.

A.J.C. 3/4.

CONFIDENTIAL

Qz.03659

MR COLES

THE EUROPEAN COMMUNITY'S BUDGET: THE REFORMED FINANCING SYSTEM

Objectives

1. The principal objectives of the United Kingdom in the negotiations launched at the Stuttgart European Council last year were:-

(i) to establish a lasting reformed system for financing Community expenditure which would have the effect of substantially reducing the United Kingdom's net contribution. In particular, against the initial opposition of all other member states, we wished to include the new system in a revised version of the Community's basic financial law, namely the 1970 Decision on Own Resources. This Decision is equivalent to a Treaty and can only be changed by unanimous agreement of member states and their national parliaments. It follows that, once we have put the new system into the revised Decision, it can only be changed with our agreement. Thus in the future other member states would still have to get United Kingdom agreement to any increase they might want in the VAT ceiling on Community finance. The United Kingdom, on the contrary, would not have to get the agreement of other member states to its refunds because they would already be the automatic result of a system which could not be taken away. This would be a fundamental change in the balance of power in the Community. We have negotiated into the French Presidency's text presented to the European Council on 20 March and now accepted by all member states the statement that the correction mechanism will form part of the decision on new own resources;

/(ii)

(ii) the correction of a member state's net contribution should be made by simply reducing the amount of VAT which it pays to the Community. This was strenuously opposed by many member states but has now been accepted in the Presidency text presented to the European Council on 20 March. This method removes the difficulties associated with the ad hoc refunds in recent years, which were implemented through extra Community payments to the United Kingdom and could thus be blocked by the European Parliament and other member states (as has currently happened in relation to the 1983 refund);

(iii) the establishment of a limit on a member state's net contribution, this limit being expressed as a percentage of the gross domestic product and varying only in line with its relative prosperity. Member states whose gross domestic product per head was at or less than 90 per cent of the Community average would have a limit of zero on their net contribution while the richest member states would have high limits. The United Kingdom's proposal in our safety net paper was that the United Kingdom's limit should be about 0.1 per cent of gross domestic product. The system was, of course, carefully calculated to produce a limit for the United Kingdom (our relative prosperity is currently about 96 per cent of the Community average but in a Community of 12 will be about 105 per cent) which would be favourable to us both in the present and in an enlarged Community. The Presidency text states that the budget correction will take place beyond a limit (called a "threshold") "which will be expressed as a percentage of absolute GDP. This percentage will vary as a function of relative prosperity as indicated by per capita GDP in a Community of 12."

2. These objectives were not adequately reflected in the Presidency text which was available at the beginning of the European Council on 19-20 March. They have, however, been achieved in the text which was negotiated during the European Council (text of 1700 hours, 20 March) which is still - just - on the table.

/3.

Negotiating situation

3. The negotiating situation which confronted the Prime Minister at the European Council was very unsatisfactory because the Nine had ganged up on a refund not higher than 1000 million ecu and insisted that an ad hoc arrangement at this level should last for 5 years before the system was introduced. The Kohl proposal was worth no more than 5000 million ecu to the United Kingdom over the next five years. The final Kohl/Lubbers/ Thorn proposal (ad hoc refund of 1000 million ecu for 2 years, with system thereafter on basis of reference figure of 1000 million ecu for the refund) was worth about 8100 million ecu to the United Kingdom over the next five years. Subsequently we have achieved a reduction in the period of ad hoc refunds to one year only and confirmation of agreement on the system which will apply after the one ad hoc year.

4. At this point our negotiating aims are:-

(i) not to lose the system

(ii) to put an acceptable starting figure into the system

(iii) if possible, to get a specific agreement on the limit ("threshold") expressed as a percentage of our gross domestic product and on our marginal rate of contribution ("ticket moderateur") to the potential increase in Community expenditure. This would be an insurance against rats trying to nibble away at the system before it is included in the legal text.

5. The fiction that the Presidency text at the European Council is still under discussion and may be agreed can only last until the Foreign Affairs Council of 9-10 April. The Commission, after seeing no way through the deadlock at the Foreign Affairs Council of 27 March, is now in confidential contact with us. Starting from the basis of a refund of 1100 million ecu on 1983 figures, they may propose that:-

(i) the limit ("threshold") for the United Kingdom would be 0.05% of gross domestic product. On 1983 figures this would give a contribution of 250 million ecu.

/This

This element is itself more favourable to the United Kingdom than our own proposal but must, of course, be seen in conjunction with the other parts of the package. The Commission may also propose that, as a qualifying condition for compensation, the VAT share/expenditure share gap should be at least 0.1% of GDP. This is unlikely to be of practical importance for us but a similar provision applied pari passu to Germany could ensure that the German limit would be very high and that we should not therefore be contributing to any German compensation;

(ii) Marginal "ticket moderateur". The United Kingdom would be reimbursed 90% and would contribute 10% of its unadjusted net contribution above a certain level. This would provide us with a good protection against rising Community expenditure in the medium term;

(iii) the net effect of (i) and (ii) being very favourable to the United Kingdom, the Commission proposes that for a first tranche of the unadjusted net contribution above the limit, the rate of compensation should be 77 per cent and the rate of contribution 23 per cent. These figures are calculated with the aim of giving a refund of about two thirds of the VAT share/ expenditure share gap.

6. Our own calculation is that this system would give us refunds in 1985, 1986 and 1987 of about 57%, 64% and 65% respectively of our full unadjusted net contribution. In principle, the percentage refund will rise if the unadjusted net contribution rises in later years. Here is the calculation for 1985 -

/ . . .

	million ecu
unadjusted net contribution	2310
levies and duties	300
VAT share/expenditure share gap	2010
threshold (0.05% of GDP)	297
excess	1713
ticket-moderateur	394
adjusted net contribution	991 (£585 million)
refund	1319 (£778 million)

7. Our calculation of the additional refund which the United Kingdom will receive over the next five years on the basis of the latest Commission suggestion, by comparison with the offer which Chancellor Kohl and his colleagues sought to impose on the United Kingdom in the European Council and which the Prime Minister rejected, is about £2200 million.

8. I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

3 April 1984

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10 DOWNING STREET

Prime Minister.

EC Budget.

We may be approaching a critical point in the negotiations. Would you like Lord Whitelaw to attend the meeting with the Foreign Secretary and the Chancellor arranged for 3.15 tomorrow (see meeting folder)?

Yes MT

A.J.C. 3/4.

NBPM AT 2/4 cc: 10

FCS/84/104

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Capital Allowances: Transitional Arrangements for Certain Regional Projects - Handling of the Commission

See Part 23

1. Thank you for copying to me your letter of 27 March to Nigel Lawson.

2. I agree with your conclusion that we should do all we can to persuade the Commission that the transitional arrangements announced by Nigel Lawson in the budget do not constitute an aid and are not notifiable. I also agree that we should not mention Nissan in any approach to the Commission.

3. My only reservation is about the tactics we should adopt. I very much doubt whether a short letter and low key approach by Counsellor(Industry) in UKRep Brussels will persuade the Commission to drop their request. A decision to drop the case, now that formal request for notification has been made, would have to come from Commissioner Andriessen himself. I am reinforced in this view by the outcome of a recent European Court case brought by Germany against the Commission for their failure to consult other Member States before agreeing a Belgian proposal to increase state aid to their textile industry. The Court ruled that the Commission decision should be nullified. As a result, DG IV officials are now particularly nervous about exercising any discretion.

4. I suggest therefore that Sir Michael Butler should be instructed to have a word with Andriessen, drawing on a speaking note to be agreed between our officials. We should not write to the Commission at this stage. Depending on the outcome of that approach - which clearly should be

/made in

made in the course of next week - we can determine whether further political lobbying (perhaps at Ministerial level) is required. We should not give the Commission the impression that their request causes us particular concern. For that reason, I suggest that we hold Ministerial intervention in reserve for the moment.

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

GEOFFREY HOWE

Foreign and Commonwealth Office
2 April 1984

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Budget
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CC NSO.

NBPM

AT 2/4

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

2 April 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry

Dear Secretary of State,

CAPITAL ALLOWANCES:
TRANSITIONAL ARRANGEMENTS FOR CERTAIN REGIONAL PROJECTS

You wrote to me on 27 March about the Commission's challenge to the transitional arrangements we are making in our capital allowance system.

It is disappointing that this problem has arisen but I agree with your proposed approach although I would like to suggest a slightly different presentation. I doubt whether Commission officials will find the present reply very convincing. They may say that it misses the point, which is that the restriction of the transitional arrangements to certain regional projects constitutes the regional aid. I think that our reply should emphasise that no-one will be receiving any extra money and that the level of capital allowances in the regions will be much less on future projects. The defensive briefing should be that the arrangements are transitional and will affect only past projects which the Government is committed to assist.

The enclosed note sets out the terms in which, I believe, we should frame our reply. It is based on points (i)-(iv) of your letter. My officials are available to discuss with yours drafting of the briefing of the Counsellor (Industry).

Copies of this letter go to those who received yours.

Yours sincerely,

Margaret O'Mara

NIGEL LAWSON

(approved by the Chancellor and signed in his absence)

SECRET

Terms of Reply

(i) This is not a new aid. None of these projects will receive anything extra to that already negotiated and accepted as being within the rules.

(ii) Future projects will receive a much reduced level of capital allowances.

Defensive

(iii) Future rates of capital allowances and corporation tax will apply nationally.

(iv) The proposals are merely transitional arrangements. Certain projects which received offers of Government assistance (within the rules) before the Budget will continue to receive the pre-Budget level of capital allowances. These have never been challenged previously and their continuance cannot suddenly become an aid.

Euro Pol: Budget Pt 23

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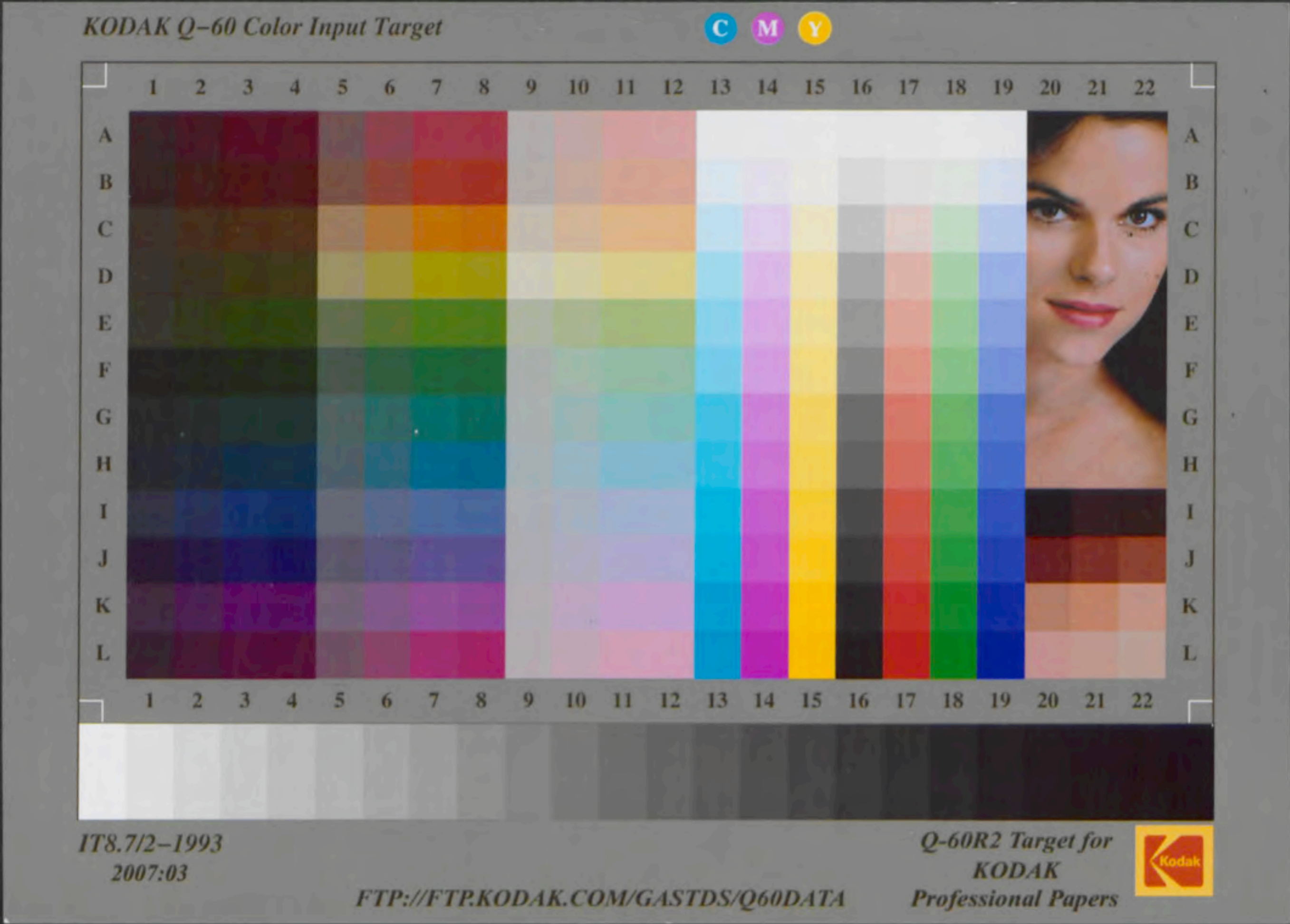
PART 23 ends:-

UKREP Brussels Tel 1192 30.3.84

PART 24 begins:-

Ch/Ex to SS/DTI 2.4.84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