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PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 88/8

OPS  
cc M. Fisher  
Subject: European Council Stuttgart  
12/16  
MESSAGE FROM THE PRIME MINISTER TO CHANCELLOR KOHL

Thank you for your message about the European Council. I look forward very much to seeing you in Stuttgart and I am extremely anxious that the meeting should be a success both for you personally and for the Community.

The discussion of future financing will of course be at the centre. I hope that the Stuttgart meeting will be able to make real progress and lay down a tight timetable and framework for the detailed negotiation which must follow.

The key issue is the problem of budget imbalances. The Commission have proposed a scheme for modulated VAT which would go some way to reducing the problem, but other measures will certainly be necessary. In addition to the development of cost-effective Community policies in fields other than agriculture some kind of safety net scheme will be needed to ensure that no Member State is again put in an unacceptable situation. Such a scheme would enable Member States to consider new proposals for Community policies on their merits and not have constantly in mind whether they would increase their financial burden.

The UK and Germany have always taken the lead in calling for better financial discipline in the Community, particularly over CAP expenditure. Most other Member States now recognise the need for action in this field. I hope that we can now get acceptance of the need both to set a binding limit on the rate of growth of CAP expenditure, so that it increases markedly less than own resources, and to take the necessary measures in the agricultural sector to keep expenditure within this limit.

I know that a number of Member States, and the Commission, believe the case for new own resources is already clear. I am afraid I am not so convinced and I could not agree to any form of prior commitment to increase own resources. I can see no case for such an increase while there is no effective discipline on CAP spending and no lasting solution to budgetary imbalances.

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As well as dealing with the long term problem, the Stuttgart European Council must agree on a settlement of the interim problem for the UK until the lasting solution is in place. I was greatly heartened when at our bilateral meetings both in February and in April you showed so much understanding of our need to get this problem resolved during the German Presidency. Now that the British people have shown yet again that they are in favour of Community membership, the need to resolve the immediate difficulty over the budget and so fulfil the promises made by the Community in May and October last year and again at the March European Council this year, is all the more pressing. I can see no other fair and reasonable basis for a settlement than the two-thirds principle which underlay the earlier agreement of 30 May 1980.

Given the failure by Foreign Ministers to get to grips with this issue. I fear that we have no choice but to do so ourselves, so that our agreement in March to include the figures for 1983 in the draft 1984 budget can be carried out. If the Community fails to implement this clear commitment, as well as those made earlier, a most serious situation will arise, and we shall have no alternative but to react to it in such a way as to safeguard our interests.

I very much hope that our Stuttgart meeting will take the decisions which are necessary to the positive outcome we both want.