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ms

10 DOWNING STREET

Prime Minister

Following a discussion with  
him earlier today I asked  
Mr Franklin to summarise the  
position as it now stands on  
the preparations for the Council.  
I attach the result, with which  
I agree.

Paragraph deleted and retained  
under Section 3(4).

Wayland  
30 August 2011

Ant

*Strawford  
Council*



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*P.A. has seen*

*h.g.*

*Am*

Qz 02363

MR ALEXANDER

cc: Sir R Armstrong

EUROPEAN COUNCIL 26/27 NOVEMBER: A POSSIBLE GAME PLAN

1. It is clear that we cannot hope to negotiate figures at the European Council on 26/27 November. On the other hand we must capitalise on the link which others have established between the three chapters and their fear that we are going to make a row about the budget. With the possible exception of the Danes, they are all ready to do something for us - though less than we need. If we could get agreement on method this would be a very substantial step forward. But at least we should get certain guiding principles agreed which will make the subsequent negotiating task easier. We should not get ourselves so obsessed about the best method of dealing with the budget that we lose sight of the main aim: a satisfactory outcome in terms of the general level of the UK's budgetary contribution to the Community.

2. The Foreign Affairs Council on 16/17 November, which will have before it a new text of draft conclusions (20 pages) covering all three chapters, is unlikely to get very far. A further meeting of the Foreign Affairs Council on at least the morning of Thursday 19th November will probably be necessary. It will then be left to the Presidency to produce a new text for the European Council.

3. The Anglo/German summit on Wednesday 18th November will be the opportunity to find out where the Germans stand; (and to encourage Schmidt not to put everything off until next Spring. We will ask the Germans for a reaction to the latest Treasury scheme. The possible outcomes are:-

*He has  
already  
replied.*

- (i) the Germans decide to back our scheme. In this case we should put it forward at the Council on 19th November;
- (ii) the Germans say our scheme is interesting but only acceptable if the UK continues to be a substantial net contributor. The Treasury would still like to float the scheme in these circumstances, but the FCO think this would be unwise. Sir M Butler believes it would put us in a weak

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negotiating position. It would be very unlikely to contribute to positive conclusions at the European Council;

- (iii) the Commission will have decided at their weekend meeting to propose a system of financing their scheme which will give relief to the Germans, and the Germans will have decided to back it. In this event we ought to give serious consideration to saying that, if everyone else is willing to negotiate on the Commission's scheme, so would we be, provided there was also an effective Financial Mechanism;
- (iv) the Germans will still not have made up their minds on Wednesday. In this event - perhaps the most likely - we should then decide to go hard for operational guidelines which will cover the German position but not commit us to one method or the other. After all the method is less important than achieving a satisfactory budget outcome. A possible draft agreed with FCO and Treasury is attached.

4. To have any chance of success at the European Council we should need to have some prior understanding at least with the French and the Germans. We cannot bounce the other member states entirely, but we must not give them draft language too soon before the European Council itself. In particular, we shall have to try to isolate the Danes at the European Council itself.

5. As soon as possible after the Anglo/German Summit, the Prime Minister should consider with the Foreign Secretary and the Chancellor:-

- (i) whether to go for guidelines on the lines of those attached;
- (ii) if so how best to sell them first to the French and the Germans;

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(iii) whether she should send a message to all Heads of Governments expressing concern at the lack of progress on Chapter III and the need for equal progress on all three chapters; and sketching out possible guidelines on the budget.

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*hand*

M D M FRANKLIN

13 November 1981

Encl.

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## GUIDELINES FOR BUDGET CHAPTER

1. The objectives of the Community budget are to finance agreed Community policies while avoiding the creation or recurrence of an unacceptable budgetary situation for any member state and while contributing to the overall convergence of the economies of member states.
2. In the long term the reconciliation of these objectives will be achieved through the development of Community policies and the balance between them. The conclusions reached in Chapters I and II above are a first step in that direction.
3. But the process of reconciling the objectives by these means will take a period whose length cannot be predicted with any precision and, in the meantime, a budgetary corrective arrangement will be needed, if unacceptable budgetary situations are to be avoided.
4. The corrective arrangement will need to deal not only with the problem already recognised by the Financial Mechanism but also with the imbalance in the distribution of expenditure, notably FEOGA guarantee expenditure. The arrangement will be based on objective criteria so that there is no need for annual negotiations. These criteria should include not only the progress made in reducing the problem of unacceptable situations through the development of Community policies, but also the relative size of the member state(s) in question and the relationship of their GDP per head to the Community average.
5. The financing of the corrective arrangement will be achieved within the 1 percent ceiling and without putting at risk the financing of other agreed Community policies, if necessary by a method which avoids any net budgetary impact. The financial effects of the corrective arrangement will have regard to whether the payments come from member states below or above the Community average GDP per head and whether or not they are net contributors.
6. The corrective arrangement will apply with effect from the Community's 1982 budget year. The Council, acting on a proposal of the Commission, will take the necessary detailed decisions by 31 December 1981.



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7. The detailed arrangements so agreed will be reviewed after five years to consider the progress made towards the Community's long term budgetary objectives and whether any changes are needed.

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