

CONFIDENTIAL

PRIME MINISTER

c Sir Robert Armstrong

COMMUNITY BUDGET PROBLEM

1. The Foreign Secretary is coming to see you at 5.30 pm on Monday 6 September to talk about the Community Budget negotiations. Unfortunately the Chancellor of the Exchequer will not be present as he will be in Toronto. Ministers' programmes in September make it unlikely that you will be able to discuss the Budget problem with the Foreign Secretary and the Chancellor together before 14 October when a further meeting of OD has provisionally been arranged in case it is needed.
2. The Foreign Secretary's purpose will be to check that the line which he intends to take at his forthcoming meetings with Olesen, Thorn and other Foreign Ministers is acceptable to you. He will also wish to explain his views on the prospects for the negotiations and the risks he sees in too early or too explicit a threat to withhold.

Points that the Foreign Secretary is likely to make

3. The Foreign Secretary will no doubt report on action taken since OD on 22 July. Arrangements for a campaign to convince the other member states and the Commission of the validity of the United Kingdom's case for relief from its Budget burden are well in hand. A programme of bilateral talks has been laid on. The Foreign Secretary saw Genscher at the end of August. He will see Colombo on 7 September, Olesen on 10 September and Thorn on 13 September. (You are giving Thorn lunch the next day). Later he will see Tindemans and Cheysson. The Chancellor will be talking to a number of key Finance Ministers in Toronto. Several other Cabinet Ministers have agreed to make speeches in

Community capitals during the autumn, and the Chancellor and the Foreign Secretary have circulated the draft of a robust statement of our case for inclusion in these speeches.

A basic background brief explaining our case to Continental readers has been drafted and will be distributed widely in Community capitals at the end of September.

4. The Foreign Secretary will argue that the best hope of securing a lasting solution to the Budget problem will be in the context of the review of the Community's own resources system which will be made necessary by enlargement and the approach of the 1 per cent ceiling. A settlement to cover 1983 and 1984 will therefore be needed to protect the UK's position while the review is going on. There is no hope of agreement on a settlement for 4 or 5 years independent of the review.

5. He will also be likely to explain his worries about withholding - namely that it would cause the other nine member states to join ranks in resisting our demands and that it would stimulate hostility to the Community in the United Kingdom with consequential political difficulties for a Government committed to membership.

6. Finally the Foreign Secretary is likely to stress that, although he believes that the United Kingdom should continue to press for a settlement by the end of November, that deadline is not in fact crucial. It may be in our interest to allow the matter to be brought to a head during the German presidency.

Points you could make in reply

7. In reply to these points you could speak on the following lines:-

(i) A bad settlement for 1983 and 1984 would constitute a disastrous precedent for the longer term. The UK must therefore fight for a basic refund of 66 per cent plus a satisfactory risk-sharing formula in 1983 and 1984. Further compensation for the alleged over-payments should only be agreed in return for a 66 per cent basic refund and a satisfactory risk-sharing formula. Getting this right is just as important as getting suitable terms of reference for the review.

*Bad settlement - a disastrous precedent.*

(ii) OD agreed on 22 July that the Government should "make clear its resolve to fight for British interests, with the implication that, if the other member states did not take proper account of these interests, the Government was likely to come under domestic political pressure to withhold". It was most important that Colombo, Olesen and Thorn should realize the seriousness of the crisis that would result from a failure of these negotiations. //

*Resolve to fight for British interests*

(iii) The German Government had not been at all helpful to the UK in the negotiations leading up to 25 May and it would be unwise to assume that they would sort the problem out to our satisfaction during their Presidency. The UK should not therefore give any sign - whether to the Germans, the Danes or the Commission - that we would be prepared to see the end-November deadline ignored. Delay would not make the problem easier to solve.

*German gov't will not be helpful*

Conclusions of the Meeting

8. I suggest that, after these preliminary exchanges, you steer the discussion round to the following conclusions which

could be incorporated in a Private Secretary letter recording the meeting, a copy of which could be sent to the Chancellor of the Exchequer's Private Secretary:-

- (i) The Government's quantitative objectives for the size of refunds in 1983 and later years - including the treatment of over-payments - would need to be discussed with the Chancellor of the Exchequer when all three Ministers were available in London which was not likely to be before 14 October. It would no doubt be useful to have a small meeting confined to these three Ministers (plus possibly the Minister of Agriculture) before any further discussion in OD.
- (ii) Until such further Ministerial discussion had taken place, the UK should not commit itself to making any further restitution of over-payments but should confine itself to pointing out that the other member states had no legal case for any further restitution at all and that the Government's attitude to demands for further restitution by the other member states would be influenced by the attitude that they took to the nature of the problem and the basic solution for 1983 and later years.
- (iii) No decision should be taken on withholding until OD had had the opportunity to consider in detail the contingency plan prepared by officials and also to discuss the domestic and international implications in greater depth than had been possible on 22 July.
- (iv) At the talks with Colombo, Olesen, Thorn, Tindemans and Cheysson, the Foreign Secretary and the Prime Minister should concentrate on convincing them of the following points:-

- (a) The need for decisions at the next Foreign Affairs Council on 22 September to implement the 25 May agreement for 1982; and the disastrous consequences of any backsliding.
- (b) The need to find a lasting solution to the Budget problem so as to do away with divisive negotiations every year or six months.
- (c) If the solution had to be secured in 2 stages, then two conditions must be respected : first, the refunds for 1983 and 1984 must be satisfactory; and, second, finding a lasting solution to the British problem must be one of the explicit objectives of the review.
- (d) The time-table agreed in May should be respected. Delay would not make the problem easier to solve. The hard fact was that, if the end-November deadline were not met, the British government would come under increasing domestic pressure to withhold. The Presidency and the Commission had a responsibility to ensure that solutions were found in negotiation.

D.H.

D J S HANCOCK

3 September 1982