



Prime Minister

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Qz.02757

MR COLES

cc: Sir Robert Armstrong

COMMUNITY BUDGET: AD HOC MEETING 5pm WEDNESDAY 20 OCTOBER

You are to discuss the Community budget issue with the Chancellor, Foreign Secretary and Minister of Agriculture, each supported by one official, at 5pm tomorrow. The following papers are relevant:-

- (i) The Foreign Secretary's minute "Community Budget Problem", dated 15 October.
- (ii) The Foreign Secretary's minute "Informal Meeting of Foreign Ministers 16/17 October", dated 18 October.
- (iii) OD(82) 68, a note by the Official Steering Committee on the Review of the Community's Financial Arrangements.
- (iv) OD(82) 69, the progress report by the Treasury and the Foreign Office on the campaign to change expectations in other member states.

[will you know papers]

2. Following my talk with the Prime Minister this morning, I suggest that she might aim to steer tomorrow's meeting to the following conclusions.

Review

3. When Thorn proposes a review in November (as he says he will) the United Kingdom's reaction should be cautious. We should point out the difficulties - the time it would take and the danger that the exercise would run into difficulties because it was over-ambitious as did the 30 May Mandate. We should not commit ourselves to it until we were sure that the bandwagon was rolling strongly in favour of it. Meanwhile, we should privately consult the Germans about the conditions on which we might go along with it if the majority were in favour (as they probably will be). These conditions might, subject to German views, include:-

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- (i) A commitment to seek lasting solutions to the United Kingdom and German budget problems as a part of the review;
- (ii) An effective means of controlling the rate of growth of agricultural expenditure; and
- (iii) No presumption of any increase in own resources as a result of the review. (I would recommend against a declaration that we would never in any circumstances agree to an increase in own resources. Sir J Taylor is not at all sure that the new Government would stick to this line and we might find ourselves isolated.)

Interim solution

4. If Thorn proposes an interim solution for 1983, 1984 and "possibly" 1985 (as he says he will), we should make it quite clear that this would only be acceptable if it respected the principle of the 30 May Agreement, namely:-

- (i) A basic 66% refund of the Commission estimate of the United Kingdom's unadjusted net contribution for each year.
- (ii) A risk-sharing formula compatible with the 30 May Agreement.


We should say that our attitude to over-payments would be determined by other Governments' attitude to the basic nature of the settlement as defined above.

Withholding

5. No decision on withholding should be taken until the second half of November. The decision would probably need to be endorsed by Cabinet. The contingency planning should proceed so as to ensure that the necessary legislation could, if Ministers so decided, be enacted before Christmas.

/Anglo/German Summit



  
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Anglo/German Summit - 28/29 October

6. At the Anglo/German Summit the Prime Minister should emphasise the Government's commitment to the Community and sympathy with the new German government's desire to give it a new impetus but stress that a fair and lasting solution to the budget problem was a necessary condition for any successful impetus. The Prime Minister should aim to convince Chancellor Kohl that the development of the Community depended on effective cooperation between the German, United Kingdom and French governments and that the German government shared with the UK an interest in establishing a better system of control over Community expenditure and a permanent check on the size of the net contributions of the net contributors.

7. The Chancellor of the Exchequer should go into greater detail with Herr Stoltenberg on ways in which a check on the size of the net contributions of net contributors might be achieved.

Subsequent meetings

8. The line to take at the Anglo/French Summit would be influenced by the reaction of the Germans. There is no point in deciding the line at the European Council until after we have seen what Thorn proposes and how others react to those proposals.

9. It seems to me that conclusions on the above lines would give the Foreign Secretary and officials all the guidance they need for the rest of this month. A further meeting of the ad hoc group might be arranged for 1st, 2nd or 3rd November. There is no pressing need for a meeting of OD on this subject at present.

D.H.

D J S HANCOCK

19 October 1982