

SUBJECT

cc Master.

CONFIDENTIAL



cc WPO  
HWT  
CO  
bc P.C.

10 DOWNING STREET

*From the Private Secretary*

22 June 1984

Dear Roger,

EUROPEAN COUNCIL: BUDGET IMBALANCES

The Prime Minister held a meeting yesterday with the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer in order to prepare the United Kingdom negotiating position on the budget inequity and United Kingdom refunds for the European Council on 25-26 June. Sir Robert Armstrong, Sir Michael Butler and Mr. Williamson were also present. The European Secretariat of the Cabinet Office had circulated on 14 June a paper summarising the state of the negotiation.

The Prime Minister said that we should seek to obtain in the European Council at Fontainebleau on 25-26 June an agreement on the system for correcting the budget inequity which would be as close as possible to that set out in the Presidency text which had been tabled at the last European Council. We should accept no more than one ad hoc year. Thereafter we could agree to a base figure for the system which would be between 1000 and 1250 million ecu on 1983 figures but clearly our margin for manoeuvre was not large if we were to obtain a defensible settlement.

The Foreign and Commonwealth Secretary reported on the bilateral discussions which had taken place in the margins of the Foreign Affairs Council, in particular on the line which was being taken by Monsieur Dumas, the French Minister for European Affairs. It now seemed likely that the French would be prepared to maintain the main elements of the system but to set the United Kingdom refund as a percentage of the VAT share/expenditure share gap with no threshold. The acceptability of such a proposal depended on the figures; the percentage must be equivalent to a fair compromise between 1000 and 1250 million ecu on 1983 figures. The Chancellor of the Exchequer said that it was important to seek an arrangement which gave the United Kingdom the best protection at the margin.

/ In discussion,

JH



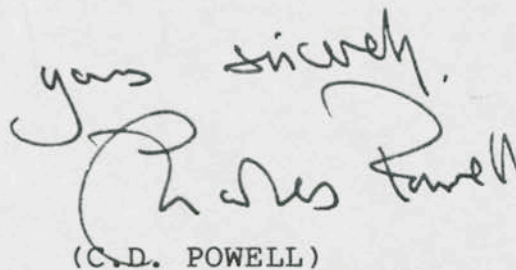
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In discussion, it was pointed out that the basic position of the United Kingdom should be that a substantial amount had been achieved in the text at the last European Council and that, if any Member State began to upset this now, the negotiation would be set back. We must build on what we had achieved so far. It was still not clear what view President Mitterrand would take on the form of any compromise. In particular, the Germans had apparently not yet finalised their position on whether they would seek a threshold or would be prepared to have no threshold but an agreement that they should contribute only two-thirds of their normal share of the United Kingdom refund. This was not a matter of critical importance to the United Kingdom, provided that we protected ourselves effectively against any significant cost from the German arrangements. This should be negotiable.

Summing up the discussion, the Prime Minister said that the United Kingdom's interest was to keep the discussion in the next European Council as far as possible on the same basis as at the last European Council and to retain those elements of the Presidency text which were favourable to the United Kingdom. We were aiming for a system and prepared to reach a compromise between the closing position of the Nine and the United Kingdom in the last European Council and the Foreign Affairs Council of 27 March. It was not possible, in advance of knowing what the French Presidency might propose, to determine whether this would be achieved through a threshold and a rate of compensation above the threshold or by setting a single rate of compensation. In any event, it must be shown to be acceptable in relation to the gap between 1000 and 1250 million ecu on 1983 figures.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely,  
  
(C.D. POWELL)

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



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MR POWELL

*Letter to issue*

*CJD*

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I attach a draft letter recording in very summary form the meeting which the Prime Minister had yesterday with the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer about the question of budget imbalances at the next European Council.

*D. F. Williamson*

D F WILLIAMSON

22 June 1984

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Draft letter from Mr Powell to Mr Bone, FCO

European Council: ~~British Budget Problem~~ *Budget Imbalances*

The Prime Minister held a meeting yesterday with the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer in order to prepare the United Kingdom negotiating position on the budget inequity and United Kingdom refunds for the European Council on 25-26 June.

Sir Robert Armstrong, Sir Michael Butler and Mr Williamson were also present. The European Secretariat of the Cabinet Office had circulated on 14 June a paper summarising the state of the negotiation.

2. The Prime Minister said that we should seek to obtain in the European Council at Fontainebleau on 25-26 June an agreement on the system for correcting the budget inequity which would be as close as possible to that set out in the Presidency text which had been tabled at the last European Council. We should accept no more than one ad hoc year. Thereafter we could agree to a base figure for the system which would be between 1000 and 1250 million ecu on 1983 figures but clearly our margin for manoeuvre was not large if we were to obtain a defensible settlement. /<sup>3.</sup> The Foreign and Commonwealth Secretary reported on the bilateral discussions which had taken place in the margins of the Foreign Affairs Council, in particular on the line which was being taken by Monsieur Dumas, the French Minister

/for



for European Affairs. It now seemed likely that the French would be prepared to maintain the main elements of the system but to set the United Kingdom refund as a percentage of the VAT share/expenditure share gap with no threshold. The acceptability of such a proposal depended on the figures; the percentage must be equivalent to a fair compromise between 1000 and 1250 million ecu on 1983 figures. The Chancellor of the Exchequer said that it was important to seek an arrangement which gave the United Kingdom the best protection at the margin.

4. In discussion it was pointed out that the basic position of the United Kingdom should be that a substantial amount had been achieved in the text at the last European Council and that, if any member state began to upset this now, the negotiation would be set back. We must build on what we had achieved so far. It was still not clear what view President Mitterrand would take on the form of any compromise. In particular, the Germans had apparently not yet finalised their position on whether they would seek a threshold or would be prepared to have no threshold but an agreement that they <sup>should</sup> contribute only two-thirds of their normal share of the United Kingdom refund. This was not a matter of critical importance to the United Kingdom, provided that we protected ourselves effectively against any significant cost from the German arrangements. This should be negotiable.

4. Summing up the discussion, the Prime Minister said that the United Kingdom's interest was to keep the discussion in the next European Council as far as possible on the same basis as at the last European Council and to retain those elements of the Presidency text which were favourable to the United Kingdom. We were aiming for a system and prepared to reach a compromise between the closing position of the Nine and the United Kingdom in the last European Council and the Foreign Affairs Council of 27 March. It was not possible, in advance of knowing what the French Presidency might propose, to determine whether this would be achieved through a threshold and a rate of compensation above the threshold or by setting a single rate of compensation. In any event, it must be shown to be acceptable in relation to the gap between 1000 and 1250 million ecu on 1983 figures.

5. I am sending copies to Janet Lewis Jones (Lord President's Office), David Peretz (H M Treasury) and to Sir Robert Armstrong.

CDD