

CONFIDENTIAL

Prime Minister

A & C.  $\frac{26}{11}$

Qz.02809

MR COLES

Budget

cc: Mr Kerr, H M Treasury  
Mr Fall, FCO  
Mr Lawson, MAFF  
Sir Robert Armstrong

EUROPEAN COUNCIL: COMMUNITY BUDGET PROBLEM

I refer to the brief on the budget problem - EHG(C)(82) 11, copy attached. I should like to call the Prime Minister's attention to three of its tactical recommendations which may need some explanation.

The own resources ceiling

2. In paragraph 6 of the Points to Make, the brief recommends the Prime Minister to use the words:

"... the essential requirement is effective control over the growth of surpluses and of CAP expenditure. We take the view that the present own resources will be sufficient even after enlargement."

This passage has been drafted to avoid both:-

- (i) committing the United Kingdom to any increase in the funds available to finance Community expenditure; and also
- (ii) giving the impression that our minds are closed to any change in the Community's financial system.

3. To go as far as (ii) would be a tactical mistake. We need a fundamental reform of the Community's financial system in order to secure a lasting solution to our budget problem. We also need to break down resistance in the other member states to giving us what we require on the budget. Some of the other Heads of Government are genuinely worried that the 1% ceiling will frustrate the development of the Community and cause their

/farmers

CONFIDENTIAL

CONFIDENTIAL

farmers to suffer because FEOGA has run out of money.

4. The point is one of presentation and psychology and not of substance. The Treaty gives us an absolute veto over any increase in own resources and the others all know it. (The Luxembourg Compromise is not relevant to this decision.) We should arouse unnecessary hostility if we gave the impression that we would veto an increase in own resources no matter what the merits of the case. We have lots of good arguments on our side. We can point out that it is the CAP and not enlargement that constitutes the threat to the 1% ceiling. The other member states cannot deny that the Community has so far failed to take effective action to curb agricultural surpluses which are the cause of the problem.

Review of the Community's financing system

5. The Commission or the Presidency may invite Heads of Government to comment on the Commission's proposal to conduct a "thorough review of the Community's financing system" and make proposals next Spring. Paragraph 7 of the Points to Make suggests that, if required to comment on this point, the Prime Minister should say:-

"We are certainly prepared to discuss the Commission's proposals for changes to the Community's financial system, but I am not prepared today to agree that, regardless of what is done about CAP expenditure, new money will be needed."

6. This formula would leave us free to advocate changes in the revenue and expenditure sides of the Community budget which would solve the problem of our net contribution without increasing our gross contribution.

/ . . .

CONFIDENTIAL

The timetable for a solution to the UK problem

7. On this point the brief in paragraph 4 suggests that the Prime Minister should try to persuade Mr Schlueter to say in his Presidency conclusions that the European Council has asked Foreign Ministers to find a solution to the problem before their next meeting (ie the first European Council under the German Presidency, at present scheduled for the end of March). The Prime Minister should not make an issue of this because it is quite probable that President Mitterrand would not agree and we do not wish to be seen to have been rebuffed.

8. If the attempt to get suitable words in the Presidency conclusions failed, the Prime Minister could say (both in the Council and to the press afterwards) that, if the Foreign Ministers failed to solve the problem before the next European Council, then a serious situation would have arisen which would require priority attention at that Council.

9. The background to this advice is that the French Minister, Monsieur Chandernagor, refused to agree to a new deadline when the Foreign Secretary argued for one at the Foreign Affairs Council on 22 November. President Mitterrand may well take the same line at Copenhagen and, if he did, he would not be likely to give way.

D.H.

D J S HANCOCK

26 November 1982