



10 DOWNING STREET

From the Private Secretary

17 May 1983

Dear Brian,

STUTTGART

The Prime Minister held a meeting here this morning, attended by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and officials, to consider the prospects for the Stuttgart European Council.

Mrs Thatcher gave a brief account of her telephone conversation with Chancellor Kohl yesterday (my letter to you of 16 May) and said that in all the circumstances it seemed best to agree to the postponement of the European Council, though this would unfortunately mean that some of the pressure on our partners to settle the UK budget problem would be relieved. The Foreign and Commonwealth Secretary commented that it was true that the extreme pressure had now been lifted but even if it had been maintained it was most unlikely that a settlement of our problem would have been agreed on 24 May and there was no certainty that agreement would have been reached on 6/7 June. It now seemed likely that the Council would take place on 17/19 June.

It was agreed that, when the German Presidency announced the postponement, our public line should be that we had not sought this, but the decision of the German Chancellor to postpone the meeting was most courteous because it would have been difficult for the Prime Minister to attend the European Council just two days before the British election. We should, when necessary, make it clear that our position on the question of the budget would be the same after the election as before (on the assumption that the Conservative Party won the election).

The Chancellor of the Exchequer pointed out that, although the postponement meant that we no longer possessed one trump card, if the present Government were returned in the election we should have a trump card of another kind - our partners would have to reckon with the prospect of a British Government in power for a further number of years with a firm attitude on the question of the budget. Agreeing, the Prime Minister said that we must maintain pressure for a settlement at the next meeting of the Foreign Affairs Council. It should be made clear to our partners that they must not renege on the obligations contained in the conclusions of the European Council held in March.

The Chancellor of the Exchequer said that we also needed to give thought to our posture with respect to the 1% VAT ceiling. We and the Germans were now virtually alone in opposition to

CONFIDENTIAL

- 2 -

lifting the ceiling - and the German position was not very firm. Nevertheless, our opposition placed a card of great importance in our hands. There was no prospect of the British Parliament agreeing to lift the ceiling unless there was a solution to our budget problem which transformed the nature of the budgetary process. We should not appear to be willing to concede an increase in own resources when we might not be able to persuade Parliament of the desirability of doing this. The Foreign and Commonwealth Secretary said that he had made it quite clear at the Schloss Gymnich meeting that there could be no increase in own resources unless there was a completely satisfactory agreement not only on our budget solution but on restraining EC agriculture expenditure. Herr Genscher had taken the line that there could be no increase except in the context of enlargement. The Prime Minister commented that she could see no reason to concede an increase even in the context of enlargement. We should not give one inch on this issue otherwise the prospect of reforming the CAP would disappear.

The Foreign and Commonwealth Secretary said that he might need to consult the Prime Minister by telephone over the weekend, following the visit by a representative of the German Presidency to London later in the week.

I am copying this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL