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POST-STUTTGART NEGOTIATIONS: MEETING OF MINISTERS AT
5.30 pm ON 1 DECEMBER

Brief for the Prime Minister

Objective

This meeting is intended to discuss and, where appropriate, decide the United Kingdom's line on certain major points for the European Council in Athens on 4-6 December.

Arrangements and handling

The Ministers present will be the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food and the Minister for Trade. Each Minister will be accompanied by one official. Sir Michael Butler and I will also be present. Your staff are consulting you whether for the agricultural part of the discussion the Secretaries of State for Northern Ireland, Scotland and Wales should be present.

The papers before the meeting should be:-

- (i) "European Community: the main questions for the European Council" (memorandum by the European Secretariat, Cabinet Office, distributed on 28 November).
- (ii) "European Community Budget Negotiations: Contingency Plans" (updated memorandum by the European Secretariat, Cabinet Office, distributed on 28 November).
- ✓ (iii) Minute of 29 November to you from the Chancellor of the Exchequer about the budget imbalance.
- ✓ (iv) Minute of 22 November from the Foreign and Commonwealth Secretary to you about ESPRIT.
- (v) Minute of 25 November from the Minister of Agriculture, Fisheries and Food to you about milk.

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These briefs
are not
necessary for
Thursday's
meeting.
A.F.C. 20.
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The full set of briefs for the European Council will be available this evening. One further brief commenting on the Presidency's text will be prepared on 1 December, since we do not expect to receive the revised Presidency text until the morning of 1 December.

Although there were further developments in the Special Council which the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer will report orally, you are strongly recommended to base the discussion of the Athens package on the separate elements listed in the conclusions (paragraph 11) of the European Secretariat's paper of 25 November on the main questions for the European Council. There are so many interlocking subjects on the table that this schematic approach does now seem necessary. If so, the main points are the following:

1. the budget inequity (conclusion (i)). You may wish, first, to invite the Foreign and Commonwealth Secretary to give an analysis of the present negotiating situation, taking account of the discussions in the Special Council this week. You may then wish to invite the Chancellor of the Exchequer, who was also present in the Special Council, to elaborate on his views in his minute of 29 November. The principal issues are not perhaps as complicated as they may at first appear. They are:

- confirmation that we should hold our safety net proposal on the table unchanged so long as there is not a fully satisfactory alternative available;
- we expect that a composite solution in two parts will enter into the negotiation at Athens. If so, we shall need to decide there our attitude to each part;
- on part A (relief for our disproportionately small payments from the Community budget) the payments share/VAT share gap is a water-tight formula (it appears, for example, in the Chancellor's packages

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alpha 2 and beta 1 and 2). In certain circumstances the payments share/GDP share or payments share/population share formulas could be acceptable. It is important to keep in mind that these formulas measure the gap but, before we could get adequate relief, we also need to agree whether the compensation is total or not. It is certain that other member states will ask that some part of the gap remaining above the limit should be charged to the United Kingdom, so that in effect the compensation would not be total;

- on part B (relief for our disproportionately large share of contributions to the Community budget) this is the crunch of the negotiation. We could accept either of the ways of dealing with this problem in the Chancellor's package alpha 2 or its variant, since de facto this would cover the whole of the net contribution. The only other forms of solution on the table are the Commission's modulated VAT and variants of that.

e You may wish to conclude the discussion on the basis that we must maintain our safety net proposal on the table unless and until we are fully satisfied with any other two part solution. On such two part solutions, we could aim for a formula based on payments share/VAT share (without ruling out other measurements of the top of the gap), with the objective that the relief should be as near to total compensation as possible. It will also be necessary to have a second mechanism to deal with our excessive contribution to the Community budget; we should aim for formulas on the lines of those in the Chancellor's package alpha 2 and variant. The combined effect, in terms of reduction in our net contribution, must be close to that resulting from our safety net proposal.

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2. Financial control and strict financial guideline for agricultural spending. You may wish to invite the Chancellor of the Exchequer to report on the latest proposals put forward by the French Finance Minister in the Special Council. These involve, inter alia, setting a VAT figure below the maximum VAT call-up, to which the total budget would have to conform. It is now possible that the French ideas, which would in the end require an amendment of the Treaty or a regulation which could only be changed by unanimity, would meet our main objective. It would also be sensible to define precisely the financial guideline for agricultural spending within the total and to include in the package the Commission's ideas on this, as strengthened by the Dutch and Germans. It would be an additional safeguard if the Commission undertakes not to put forward any agricultural proposals which would breach the guideline.

You may wish to sum up that we cannot take a definite view until we see how this is worked out at Athens. The drafts presented there will be important. It is reasonable, however, to hope that we can get elements which give the effective control of spending which we require.

3. Agriculture. You may wish to invite the Foreign and Commonwealth Secretary to report on the discussion in the Special Council and to invite the Minister of Agriculture, Fisheries and Food to comment. The United Kingdom objectives remain as set out in the European Secretariat's memorandum. The Minister of Agriculture, Fisheries and Food will report considerable nervousness among farming circles about the super-levy for milk (the Milk Marketing Board is running a campaign against it but the National Farmers Union does not rule it out) but unfortunately no solution for milk can be painless.

You may wish to sum up that we should follow the negotiating objectives set out in the European Secretariat's memorandum and, at the present time, since the Franco/German disagreement persists, we cannot tell what result might come forward for monetary compensatory amounts.

4. Other policies. You may wish to invite the Foreign and Commonwealth Secretary to report on the latest discussions in the Special Council and to invite the Minister for Trade (who is representing the Trade and Industry Secretary) to comment. It is suggested that this part of the discussion should deal separately with other policies generally and ESPRIT. On other policies generally, the United Kingdom's line on finance for the regional fund, on the integrated Mediterranean programmes and on our own objectives for Community action does not give rise to any dispute between United Kingdom Ministers. On ESPRIT, however, there is a dispute, first about the size of the programme and, secondly, about the effect on departmental budgets (this question is being discussed in E(A) at 11.30am on 1 December). Taking account of the E(A) discussion, it will be necessary at this meeting to take a view on the size of the ESPRIT programme, for which the Foreign and Commonwealth Secretary's minute of 22 November is relevant.

You may wish to sum up:

- the United Kingdom's approach to new policies should be followed through, particularly as it is putting pressure on other member states. The specific points which we have requested would be beneficial to us. On the points in dispute, we should follow the line set out in paragraph 5(v) of the European Secretariat's paper and in the briefing.
- what should be the maximum size of the ESPRIT programme which we could accept, on the assumption that, as recommended by the Chief Scientific Adviser, there should be a review during the course of the operation of the total programme.

5. Own resources. The question of own resources does not arise unless and until all other conditions are met. You may wish to invite the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer to comment on this point. The technical advice of officials is that an increase of 0.2% would cover foreseeable needs for enlargement etc at least into the 1990s but that, if the United Kingdom budget relief were financed within the VAT

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arrangements, an additional 0.1 or 0.2% might be required in order to allow other member states to finance our relief.

6. Contingency planning. There is a separate paper headed "Contingency plans" from the European Secretariat of the Cabinet Office. You may wish to invite commends from the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary. Our advice is that it is unlikely that, as a result of an inconclusive or disagreed European Council at Athens, other member states will deliberately block our 1983 refunds but that the European Parliament, later in December, might throw out the whole budget or block these refunds. The options on 1983 refunds and on the 1982 risk-sharing are set out in paragraphs 11 and 12 of the memorandum. Subject to the discussion, you may wish to conclude on those lines.

D F Williamson

D F WILLIAMSON

30 November 1983

ATHENS

Our main aims are:

1. Reform of the Budget so that no country bears an unfair burden and expenditure is effectively controlled.

The new arrangement:

- must be ^{durable} ~~double~~ and implemented on the contribution side
- must properly measure the imbalance and the ability to pay
- must give the United Kingdom enough money

2. Reform of the CAP:

- strict control of expenditure
- a ^r vigorous price policy
- the cutting of milk production plus a ~~low~~ ⁺ year price freeze ^{for several years}
- narrowing the gap between EC and other cereal prices.

ASU(?)

1 December 1983