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10 DOWNING STREET

From the Private Secretary

12 March 1984

PREPARATION FOR THE EUROPEAN COUNCIL: 19-20 MARCH

The Prime Minister had a meeting yesterday with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, and, for the first part of the meeting, the Chief Whip and the Lord Privy Seal in order to discuss the United Kingdom's negotiating position for the European Council on 19-20 March. Sir Robert Armstrong, Sir Michael Franklin, Sir Michael Butler, Mr. Unwin, Mr. Hannay, Mr. Williamson and, for the first part of the meeting, Mr. Maclean, were also present.

The Prime Minister asked for the latest report on the possible request from the Commission, in the light of its cash shortage, for an advance payment from member states. The Chancellor of the Exchequer said that it was now unlikely that there would be an immediate request for the payment of an advance on 20 March. If the Commission were to make a request for an advance to be made on 30 March or later, it would be possible for the United Kingdom to reserve its final decision until after the European Council and the plenary session of the European Parliament which would deal with the United Kingdom's 1983 refunds. The Prime Minister said that if, as now expected, there would not be a request for an immediate advance to be made on 20 March, then there was no need to decide the United Kingdom's reaction immediately. It would be good discipline if the Community were short of cash.

On the fair sharing of the Community budget burden, the Prime Minister said that President Mitterrand had admitted that the logic was on the British side but had claimed that no other member state would be prepared to agree to an adjusted United Kingdom net contribution as low as we were proposing. It was important to avoid a situation in which other member states would pocket any concessions which the United Kingdom might be prepared to make. In particular, we should not move from the safety net proposal related to the whole net contribution, although we might discuss the VAT share/expenditure share gap. It would equally be wrong to make any concession now on the "ticket moderateur". The Foreign and Commonwealth Secretary

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said that substantial progress had been made in getting greater agreement within the Community on the need for a revised system of financing. The French were likely now to accept most of the elements which we needed in the system (paragraphs 5 and 16(i) in the Cabinet Office papaer of 5 March). The French ideas on the figures were not acceptable and we were seeking to show them the changes which were necessary to meet our objectives. The revised version of the paper for President Mitterrand made clear that our solution related to the whole net contribution; that other member states were suggesting a solution related to the VAT share/expenditure share gap; and that the VAT share/expenditure share gap solution could not give the figures we needed unless the limit were set very low. The Chancellor of the Exchequer said that the revised paper for President Mitterrand did make clear that we were not arguing in favour of the VAT share/expenditure share gap scheme, even with a low limit. It also made clear the risks associated with this scheme because the customs duties and levies element could vary up as well as down. In a further discussion specific changes to the text in the draft paper for President Mitterrand were put forward, with a view to making clear that the United Kingdom was commenting upon, but not advocating, the VAT share/expenditure share gap solution. The text has been revised in the light of the discussion (see my letter of 9 March).

On control of agriculture and other spending, Sir Michael Butler reported the latest position. He recalled that the United Kingdom's prime objective was to obtain a strict financial guideline for agricultural spending, which must be incorporated in the budgetary procedures of the Community. We would certainly not get agreement to a Treaty amendment covering all expenditure at the next European Council. We must have agreement on the substance which did not preclude a Treaty amendment. It would then be possible to sort the question out in the preparation of the appropriate texts by the following European Council. In discussion it was pointed out that our first objective was the binding guideline on agricultural spending but that the earlier discussions had shown that our best chance of obtaining this might be within an agreement on budget discipline covering all Community expenditure. The Prime Minister, summing up the discussion, said that we must reiterate our stated objective on a strict financial guideline for agricultural expenditure to be incorporated in the Community's budgetary procedures, which should be binding on all three institutions of the Community.

On the VAT ceiling, the Prime Minister accepted the recommendation in the Cabinet Office paper that we should discuss neither the principle nor the size of an increase in own resources until the remaining elements in the package (in particular, the strict financial guideline and the figures on the fair sharing of the budget) had been subject to satisfactory offers by other member states. It was important not to concede the principle of an increase in own resources at this stage.

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On agriculture, the Foreign and Commonwealth Secretary reported the results of the meeting of the Sub-Committee on European Affairs of the Defence and Oversea Policy Committee. On monetary compensatory amounts our objective should be to ensure that the question was not settled on the basis of the revised German proposal in the Agriculture Council, since we needed to impose important conditions and to sell dearly any agreement to it. These conditions related to the phasing out of negative monetary compensatory amounts. They included a time limit on the system and no automatic application to countries with variable monetary compensatory amounts such as the United Kingdom. On milk, we should continue to seek application straightaway of the superlevy to production above 97.2 million tonnes, application of the superlevy at the farm level and no exceptions. It was recognised, however, that there were certain practical arguments in favour of phasing down to 97.2 million tonnes over two years. There would be further examination of possible action outside the milk sector to deal with the Irish problem. On the butter subsidy, we should aim for no reduction and our fallback position would be that we could accept a reduction provided that there were no increase in United Kingdom butter prices. We would continue to press for retaining the beef variable premium scheme but had not taken a view about the position if this did not prove negotiable. The Prime Minister said that it might be necessary again to look at the agricultural questions when it was clearer which points might be coming to the European Council.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Chief Whip, the Lord Privy Seal and Sir Robert Armstrong.

A. J. COLES

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