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MR COLES ✓  
AOL 30/5  
p.a.FUTURE FINANCING OF THE EUROPEAN COMMUNITY AND UK BUDGET REFUND:  
POINTS FOR BILATERAL MEETINGS AT WILLIAMSBURG

The future financing of the Community and the interim budget refunds for the United Kingdom were discussed in the Council of Ministers (Foreign Affairs) yesterday.

2. The key points were:-

(i) A long term solution. All member states are now prepared to launch a serious discussion on the long term reform of the financing of the Community. It is evident that specific decisions on the elements themselves will not be taken at Stuttgart, not least because of the United Kingdom and German position on an increase in the Community's revenue. It is, however, strongly in our interest that the European Council at Stuttgart should launch a clear programme of work with a view to decisions on the reform of the Community's financing, both because we intend that the United Kingdom shall be the main beneficiary of these changes and because it will facilitate a decision in June on the 1983 budget refund. We should not underrate the importance to us of getting things moving on the long term solution and its political importance for Chancellor Kohl.

(ii) The interim solution. The German Presidency did try yesterday to make other member states take a view on the figures and specific proposals in our Gymnich document. Most difficult are the Italians ("direct link with an increase in the Community's revenues") and the French ("need to clarify the long term and no urgency"). Other member states are reluctantly beginning to think in terms of percentage payments and over-payments, but have a long way to go.

3. The documents which the Presidency has undertaken to prepare for the next Foreign Affairs Council on 13 June (the elements of the work programme on the long term to be put to the Stuttgart European Council and the figures for the interim settlement) will now be very important.

4. In the light of yesterday's discussion and of certain points which the Germans have told us that Chancellor Kohl will raise with the Prime Minister at Williamsburg, you may wish to advise the Prime Minister on these points:-

- (i) Bilateral discussion with Chancellor Kohl at Williamsburg. Herr Kohl was very pleased with the last Anglo/German summit. He is most anxious that in the same spirit the results of the Stuttgart European Council should be presented not just as a budgetary question but also as a resolve to ensure a soundly financed Community with vital political objectives in common. He believes that the Prime Minister and he will largely determine how this point is seen in Europe after Stuttgart.

The Prime Minister may wish to say that:

- the Stuttgart European Council cannot decide on long term future financing. It will have taken a major step, however, if it clearly establishes the elements of the situation and starts the process which leads to the solution. This can be the first European Council to face the long term problem.
- we therefore support the Presidency in giving an impetus at Stuttgart to establishing the work programme and procedures for decisions, if possible by the end of 1983, on the

long term future financing of the Community.  
 For us and, we believe, for Germany better  
 ① control of existing expenditure and the  
 ② correction of the budgetary imbalances are  
essential elements. We recognise that other  
 member states will wish to include examination  
 of the Commission's proposal on increasing the  
Community's revenues, particularly in the  
 prospect of enlargement of the Community. We  
 also share the German view that the discussions  
 on long term financing must be seen as a means  
 of establishing a fair system which will support  
 common political objectives and policies.

- the interim solution on the budget refund for 1983 must be settled at Stuttgart, as the Community has promised. We are prepared to move the long term discussion forward as fast as possible in the autumn but we shall not accept a new and hitherto unheard of French/Italian link between the interim settlement and an increase in the Community's own resources.

(ii) Bilateral discussion with President Mitterrand.

Some of the French ideas on the long term are better than we had feared (greater willingness to envisage control of agricultural and other Community expenditure; need for a scheme to correct budget imbalances; hesitation on increasing the Community's revenues, at least before enlargement). On the 1983 budget refund, however, they are taking an intransigent line and have so far refused to discuss it until the long term elements are clear.

The Prime Minister may wish to make these points:

- we are pleased that the European Council at Stuttgart is going to establish the elements which must lead to important decisions on the long term

future financing of the Community. This is necessary for equity between member states and also as the basis for common policies and the development of Europe. We recognise the importance which Monsieur Mitterrand attaches to such policies as industrial innovation and are ready to examine further ideas which France may put forward. We have also welcomed the recognition by France that a major priority now is to examine existing Community policies in order to determine whether the money is well spent and that in any long term arrangement on financing some mechanism to correct budgetary imbalances is essential. On this last point there should be common ground between Germany, France and the United Kingdom.

- the United Kingdom is working for a success at Stuttgart in determining the elements which must go into a long term solution. The solution itself, however, cannot realistically be achieved before 1984. It is, therefore, essential that we should not prejudice the improved prospects of a long term Community arrangement by failure to agree at Stuttgart on the ad hoc and interim solution which has been promised to the United Kingdom for 1983. The longer term perspective will be clear at Stuttgart. We can and must settle at Stuttgart the 1983 budget refund figure for the United Kingdom which is to be implemented through Community measures in the United Kingdom and for which figures have now to be entered in the 1984 budget.

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(iii) Contacts with Signor Fanfani. The Prime Minister may also wish to stress that we are working for a success at Stuttgart in determining the elements which must go into a long term solution on Community financing and related policies. The long term perspective will be a major feature of the Stuttgart discussions. We have to reject completely, however, the link which the Italian Government appears to be making between the interim solution and an increase in the Community's own resources. The 1983 budget refund has been promised without these conditions. It has to be settled at Stuttgart. The figures have to be entered immediately after Stuttgart in the 1984 draft budget.

5. We are content with the summary brief which is coming forward but you may find it helpful to have the points which I have set out above.

*D F Williamson*

D F WILLIAMSON

25 May 1983

cc: Sir Robert Armstrong