Foreign and Commonwealth Office

London SW1A 2AH

MS

21 September 1983

Dear John,

Mr Tugendhat's Call on the Prime Minister:
22 September

Mr Tugendhat is calling on the Prime Minister at his request on Thursday 22 September. You asked for briefing.

On the Stuttgart negotiation the key point to convey to Mr Tugendhat is that there can be no question of our agreeing to consider an increase in own resources at Athens unless our two key conditions are met. He should take every opportunity to persuade his colleagues in the Commission of this: they would be most unwise to think we can be brushed aside with partial and unsatisfactory solutions. This will lead to a major conflict at Athens, and to a crisis in the Community's financing when the money under the 1% ceiling runs out. Of course we are willing to negotiate about the details. But this time we must have a genuine, lasting solution, not a temporary palliative.

As regards future financing we regret that the Commission appears to have decided not to support our safety net and to be opposed to a solution based on net balances. The fact that a number of other Member States took a similar line at the Special Council on 20 September does not alter the fact that any lasting solution must rely on some means of measuring the problem. Net balances do measure the net transfers which actually take place - in our case by means of regular cheques from the Treasury to the Commission. The Prime Minister might say that we see no future in attempts to provide a solution which is not based on net balances. Our safety net is the only proposal on the table which would provide a solution and we hope Mr Tugendhat will try to persuade his fellow-Commissioners to face up to these facts.

We have welcomed the Commission's own proposals for modulated VAT, as something which could make some contribution to reducing our problem. We have particularly welcomed its recognition that relief should be given by reducing our contribution not, as in the past, by means of special programmes of Community expenditure directed to the UK, which distort the budget and have involved increasing problems with the European Parliament. But modulated VAT could not

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provide an acceptable lasting solution on its own, even if the figures could be got right (as proposed it would reduce our net contribution by only a quarter) since it fails to tackle the source of the problem - the net contribution.

The same objection applies even more strongly to the Danish proposal for a convergence fund which, in addition, has all the disadvantages of providing relief through expenditure programmes, would last only five years and would reduce our problem by only between a quarter and a third. We hope the Commission will not back it.

As regards the CAP, the Prime Minister might say that the Commission's proposals were disappointing, and Mr Tugendhat was right to withhold his support for them at the time. Mr Tugendhat could help now by continuing to remind his colleagues that some formal budgetary procedure for constraining CAP spending such as our financial guideline, is crucial as a means of ensuring that the necessary decisions to adapt the individual CAP commodity regimes are taken and maintained from year to year, and in order to generate public confidence that the problems are being faced. The vague Commission formulation is quite simply inadequate to prevent the Agriculture Council continuing in its old ways. We could not possibly agree to consider increasing own resources without a really firm assurance that the money will not simply be frittered away in increased agricultural spending and still larger surplus production.

Our other major concern is that the Commission have gone too far in the direction of imposing new burdens on third countries (e.g. oils and fats tax, New Zealand) - instead of accepting that the Community must adjust.

If Mr Tugendhat raises the milk superlevy, the Prime Minister might say that we are ready to look at this but could never agree to a levy if it was hedged around with exemptions discriminatory against the UK, such as others are likely to demand.

One other point the Prime Minister may wish to raise is our 1982 risk-sharing refunds. Mr Tugendhat recently told Mr Rifkind that the European Parliament was likely to reduce still further the figure approved by the Budget Council in July and that we would be best advised not to press the matter. The Prime Minister might say that there is no question of our dropping the matter. The Budget Council agreed a figure which did not accord with the Community's agreement of 26 October 1982 on our 1982

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refunds and was lower than the figure which the Commission put forward. We noted the unwillingness expressed by Member States at the Council on 19 September to reopen the question, but hope the Commission will stick to their guns and give us their support in getting this put right.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

File

VC

European Policy

10 DOWNING STREET

From the Private Secretary 5 September 1983

BF

As I mentioned to you on the telephone, Christopher Tugendhat has asked to see the Prime Minister and I have arranged for him to come here at 1800 on Thursday 22 September

I should be grateful if you could arrange for briefing to arrive here by Wednesday 21 September.

(TIM FLESHER)

J E Holmes Esq
Foreign and Commonwealth Office

Qz.03309

MR COLES

cc: Mr Fall, FCO
Sir Robert Armstrong

PRIME MINISTER'S MEETING WITH MR TUGENDHAT, 22 SEPTEMBER

I would like to draw attention to three particular points which Mr Tugendhat is likely to raise:-

(i) the budgetary safety net. Our paper requesting a safety net to protect our position against an excessive net contribution is now firmly in the centre of the discussions in Brussels. Many member states, and the Commission, have criticized our proposal because it is based on net contributions. We are quite unimpressed by this objection, since net contributions are the best basis for calculating the budgetary costs and benefits. Furthermore, they were the basis for all the earlier discussions about correcting the budgetary inequity. The Prime Minister is recommended to say to Mr Tugendhat that it is not in the United Kingdom's interest that the Commission should join in the argument about basing the corrective mechanism on net contributions. We are going to hold to our position and the Commission will have a role to play when the proposal has to be put into a proper form later.* We think that it should not prejudice this position by intervening in the major argument now.

(ii) 1982 refund (risk-sharing). Mr Tugendhat may say that the United Kingdom should not press on with its request for the £42 million which we consider that we are owed under the 1982 risk-sharing

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*They have already been asked to do some technical work on the figures.

arrangement, since in his view this may prejudice what we have already gained. This is not our position. There is no need to make any concession now. We are awaiting the European Parliament's reaction to the draft supplementary budget and we shall then see what the situation looks like.

(iii) Presidency of the Commission. We understand that Mr Tugendhat may raise the question of the succession to the Presidency of the Commission after Mr Thorn's period of office expires at the end of 1984. He may wish to recommend against some potential candidates already in the Commission and to suggest that we should support a German candidate. The Foreign and Commonwealth Secretary has not yet taken a view on this matter, which is in any event 15 months away. I suggest that the Prime Minister should take a reserved attitude about the United Kingdom Government's view at this early stage.

D F Williamson

D F WILLIAMSON

21 September 1983