

010
see NO



CONFIDENTIAL

Qz.03405

PRIME MINISTER

POST STUTTGART NEGOTIATIONS: MEETING OF MINISTERS, 9.30 am
4 NOVEMBER

The purpose of this restricted meeting of Ministers is to review the United Kingdom's negotiating situation for the Special Council on 9-12 November. If the Special Council does not make reasonable progress, the task of the European Council at Athens on 5-6 December will be more difficult.

2. The Ministers attending are the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of State, Department of Trade and Industry (Mr Lamont) and the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr MacGregor). Two papers, prepared by the European Secretariat, Cabinet Office, after official discussion, have been circulated:

- but attached to 3.*
- European Community: The Post-Stuttgart Negotiations
 - European Community Budget Negotiations: Contingency Plans.

3. It is recommended that you should direct discussion first to the main paper entitled the Post-Stuttgart Negotiations. This paper summarizes the response of other member states so far to our proposals under the three main headings:

- financing: correction of the budget inequity (the "safety net") and the Community's own resources
- changes in the common agricultural policy and the "strict financial guideline"
- other policies.

Although all the issues in the post-Stuttgart negotiations are linked, it is convenient to discuss them under these three separate headings.

CONFIDENTIAL

4. On the budget inequity we have not moved one inch from our safety net proposal. We have succeeded in converting a number of member states to our view that the correction must be made through an abatement of a member state's VAT payment. We have also greatly increased the amount of money on offer from other member states: the latest proposal, that from Germany, could give us about twice as much money as the first proposal from the Commission. Nonetheless, we have a very long way to go. The conclusions on the budget inequity are in paragraph 12 (i) and you are recommended to summarize this part of the discussion by endorsing these conclusions, if there is agreement.

5. On agriculture we have not made much progress in converting member states to our view that there must be a very strict financial guideline which would be legally binding. We are in the process, however, of strengthening the less satisfactory proposals put forward by the Commission and probably the Germans. Our right tactic is to keep to our present stance and to draw others towards us. On specific questions, the number of issues for the Athens European Council is being reduced: it is possible that the issues will be limited to milk, cereals and cereal substitutes, monetary compensatory amounts and the wider application of guarantee thresholds to all (including Mediterranean) commodities. If so, a package may be possible but we shall need before 5-6 December to determine finally our view on the milk quota/super levy, on the cereal substitutes and on monetary compensatory amounts. The conclusions on agriculture are in paragraph 12 (ii) and you are recommended to summarize this part of the discussion by endorsing these conclusions, if there is agreement.

6. On other policies there are fewer difficulties. We need to establish more clearly with the French what they expect to include in the Athens communique on industrial cooperation. Our own major objective is to limit the Athens result to

CONFIDENTIAL

decisions on a number of particular issues which would be favourable to the United Kingdom. The conclusions on other policies are in paragraph 12 (iii) and you are recommended to summarize this part of the discussion by endorsing these conclusions, if there is agreement.

7. Finally, this paper points out that we must be careful to ensure in a settlement that the new arrangements should apply to our 1984 refund (1985 budget). We must not let this fall between two stools. The conclusion is in paragraph 12 (iv).

8. A second paper on contingency plans is primarily for the information of Ministers. The Treasury is minuting separately about the 1982 risk-sharing money. The paper points out certain potential risks to our 1983 refund (the 750 million ecu net included in the 1984 draft budget) if either the European Parliament or member states try to cause difficulty with this. The options for counter-action are set out in paragraph 10. Contingency plans are prepared but it is not possible to take a final decision until we know whether or not the European Council in Athens has been successful and whether or not there are new difficulties in the way of payment of our agreed 1983 refund. You are recommended to seek the endorsement of the short conclusion in paragraph 12.

D F Williamson

D F WILLIAMSON

2 November 1983



10 DOWNING STREET

Prime Minute

The meeting has only one hour
for this difficult subject.

I suggest you simply go
through the suggested conclusions
at File A and see whether
there is agreement or not.

A. J. C. $\frac{3}{11}$

cc no



CONFIDENTIAL

Qz.03404

MR COLES *AC* $\frac{3}{u}$

EUROPEAN COMMUNITY: THE POST-STUTTGART NEGOTIATIONS

I understand that you have now arranged for 9.30 am on 4 November the meeting which the Prime Minister is holding with the Ministers principally concerned, in order to review our negotiating situation before the next meeting of the Special Council on 9-12 November. I have already submitted with my earlier minute of 28 October the Memorandum which the European Secretariat has prepared on the post-Stuttgart negotiations. That Memorandum deals with the major issues in the negotiation.

2. I now attach a further Memorandum on the linked issue of handling our 1983 refund and the contingency plans in case there is deadlock at Athens. You will note that this paper does not call for decisions at the present time but draws attention to the options which will need to be considered if we do run into difficulties in obtaining the payment of our 1983 refund.

3. I am sending copies to Brian Fall (FCO), John Kerr (Treasury), Callum McCarthy (DTI), Robert Lowson (MAFF) and Richard Hatfield (Cabinet Office).

DF Williamson

D F WILLIAMSON

2 November 1983

CONFIDENTIAL

CONFIDENTIAL

EUROPEAN COMMUNITY BUDGET NEGOTIATIONS: CONTINGENCY PLANS

Memorandum by the European Secretariat,
Cabinet Office

1. It is not possible now to know whether the European Council in Athens on 5-6 December will come to a successful conclusion, a partial success or a deadlock. It is necessary, therefore, not only to conduct our strategy with a view to a success at Athens but also to be prepared for a worse result and in that event to protect our position on our 1983 refund (750 million ecu net) and on the amount which we insist that we are owed under the 1982 risk sharing arrangement (75 million ecu net).

The 1983 Refund

2. The conclusions of the European Council at Stuttgart provide that a refund of 750 million ecu net should be incorporated in the 1984 draft budget. The Budget Council in July respected this decision: it made full provision in the 1984 draft budget and allocated the amount to budget lines, not to the reserve chapter. Implicitly, therefore, the Council rejected, as we do, any argument that these refunds were conditional on decisions on future financing.

3. The Stuttgart conclusions do not specify when during 1984 the refunds are to be paid. As in the case of previous refunds, we want the payment to be made before 31 March 1984. Before the refunds can be paid, two further stages are required:

- (i) the European Parliament must adopt the 1984 budget, including provision for these payments;
- (ii) the Council must agree the necessary implementing regulations which provide the legal basis for making payments specified in the Community budget.

Budgetary Provision

4. At its plenary session on 24-28 October the European Parliament put the United Kingdom's 1983 refunds (and

1
CONFIDENTIAL

/825 million ecu

825 million ecu of agricultural guarantee money) into the reserve Chapter 100 of the draft budget, thus making payment of the refunds conditional on "the opinion it forms of the outcome of the European Council in Athens". On 22 November the Budget Council will have to decide whether to reject the proposals made by the European Parliament and reinsert the original provision. The United Kingdom will demand that our 1983 refunds are reinstated on budget lines. The Council has the last word on the part of our refunds classified as obligatory (736 million ecu gross) but the European Parliament at its second plenary session on 12-16 December has the last word on the part classified as non-obligatory (255 million ecu gross). If the Parliament respects the Council's classification between obligatory and non-obligatory expenditure, they would only legally be able to place the non-obligatory expenditure in Chapter 100. If some of the refunds remain in Chapter 100, a further decision by the Council and the European Parliament will be required before the money can be paid.

5. The European Parliament also has the right at its December plenary session to reject the draft budget in its entirety. This would create, however, an entirely new situation going well beyond the payment of our 1983 refund.

Regulations

6. The regulations have to be adopted unanimously by the Council of Ministers. An Opinion from the European Parliament is also required. If the European Parliament's Opinion differs from the Council's, it may demand conciliation with the Council before the regulations are adopted.

Cash Flow Problems

7. Even if the regulations have been passed and the necessary provision has been made within the 1984 Budget, there will still be an additional obstacle to be cleared to ensure that the bulk of our refunds reach us, as in previous years, by 31 March. In previous years the Commission has been able to meet this

deadline without any difficulty, because it has had surplus cash in its bank accounts carried over from the previous year. At the beginning of 1984, however, it will be very short of cash. One way round this difficulty would be for the Commission to have recourse to advances of own resources and, if necessary, their overdraft facility. There will, however, be pressure from both the Commission and other member states that our refunds should be paid over a longer period of 1984.

The Political Obstacles

8. Despite the results of the European Council in Stuttgart and the decisions of the Budget Council in July, there is a risk that, if there is little or no progress at the Athens European Council, France or some other member states would block the implementing regulations under which the 1983 refunds would be paid to us in 1984. The conclusions of the Stuttgart European Council bear out our interpretation that no conditions were attached to the 1983 refund. The Prime Minister has since set out our understanding in a letter to Chancellor Kohl, copied to President Mitterrand, on which there has been no come-back. Chancellor Kohl's statement to the European Parliament on the outcome of the Stuttgart European Council made no mention of any conditionality. Nonetheless, the question of our 1983 refunds is a lever which some member states may yet try to use in the present negotiations.

9. Thus if in the opinion either of the European Parliament or of one or more member state there is insufficient progress at the Athens European Council in resolving the main issues including new own resources raised in the post-Stuttgart negotiation, the payment of our 1983 refunds could be blocked. The situation would almost certainly not be clearcut. We could find that provision for our refund was incorporated in the 1984 budget but most of it under Chapter 100 or that the non-obligatory part was removed altogether. Equally, there could be delay over the adoption of implementing regulations caused either by other member states' desire to continue to exercise leverage over us in the context of the wider

CONFIDENTIAL

negotiations or by the need for conciliation with the Parliament. The situation might be sufficiently confused to make it difficult for us to point clearly to a single, politically motivated cause for delay.

Options

10. If following the European Council in Athens and the December plenary session of the European Parliament the obstacles to the payment of our 1983 refunds have not been overcome, the following are the principal options:-

Option 1. In the event of an overt challenge (eg a continuing refusal to agree to the implementing regulations) we could block the transfer of an equivalent amount of the Community's own resources. Contingency plans have been updated. This would require a formal decision of United Kingdom Ministers. Ministers would also need to decide a number of important issues, as set out in OD(83) 9, such as the form and extent of the blocking of Community funds, whether legislation were required and, if so, its timing and content. Action would create a new crisis in the Community and would have a major impact on the course of the post-Stuttgart negotiations.

Option 2. If the European Parliament, and not a member state, was the cause of the difficulty, we could seek a unanimous declaration by the Council of Ministers of its determination to honour the Stuttgart agreement on 1983 refunds. We would follow this up by demanding that the Commission and the Council honour this declaration, if necessary, through a Supplementary Budget in 1984 in time for it to be adopted to enable refunds to be paid by 31 March 1984, assuming that this was possible within the 1% ceiling and that the cash flow problem in paragraph 7 can be overcome. The European Parliament's agreement to this would depend on progress in the post-Stuttgart negotiation up to and at the March European Council (19/20 March).

Option 3. We could set a deadline for payment of the refund, eg the end of the United Kingdom's financial year which would

CONFIDENTIAL

be after the March European Council. We could couple this with a more or less explicit threat to block the transfer of Community funds if the deadline was not met.

1982 Risk-Sharing Refunds

11. The Treasury is minuting on the action to be taken on the short-fall (75 million ecu) which we claim in the risk-sharing element of our 1982 refunds. If Ministers do decide to block the transfer of Community funds, this sum could, if necessary, be added to the amount.

Conclusion

12. Our strategy is to achieve a successful result at the Athens European Council. Contingency plans in the event of a deadlock are prepared. It is not possible, however, in advance of the European Council to decide on a particular option before the exact circumstances are known.

European Secretariat
Cabinet Office
2 November 1983

CONFIDENTIAL