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From the Private Secretary

7 November, 1983.

European Community: Post-Stuttgart Negotiations

The Prime Minister held a meeting on 4 November with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Economic Secretary, Treasury, the Minister of State, Department of Trade and Industry (Mr. Lamont), and the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr. MacGregor) in order to review the progress on the post-Stuttgart negotiations and the United Kingdom's strategy in the run-up to the Athens European Council on 4-6 December. Sir Robert Armstrong, Sir Michael Butler and Mr. D.F. Williamson were also present. The European Secretariat of the Cabinet Office, after discussion with officials, had submitted a memorandum of 28 October on the main elements of the negotiations and a memorandum of 2 November on contingency plans.

On future financing and the correction of the budget inequity the Foreign and Commonwealth Secretary said that this would be a principal issue for the European Council in December. It was essential that the budget inequity was properly and fully measured and that the alternative approaches were presented to the European Council. The large majority of member states would not accept that the correction should be based in specific terms on the "net contribution". This did not rule out, however, a solution which did actually deal with the net contribution but which was differently presented. It was important that the message which the Prime Minister gave to Mr. Papandreou at the meeting on 4 November should be one of continued United Kingdom insistence on the proper measurement of the problem through the net contribution. Premature attempts by the Greek Presidency to propose compromises between the position of the eight net beneficiaries and the two net contributors would not help the negotiation forward. The Chancellor of the Exchequer said that the United Kingdom must remain firmly of the view that the net contribution was the substance of the problem and that the remedy should deal with it. The Prime Minister said that she would make these points in her discussion with Mr. Papandreou. We could not agree to a solution which did not correspond to the proper measurement of the budget inequity.

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In discussion it was pointed out that despite difficulties there had been some progress in the negotiations. Three other member states had moved, although not sufficiently, towards the United Kingdom position, while the United Kingdom had not moved one inch. Some member states, however, particularly Germany, considered that if the United Kingdom had an absolute limit on its net contribution we would have no interest at all in restraining new Community expenditure. This opinion was strongly felt and it might be necessary to agree that the United Kingdom should bear a very small part of its net contribution above the limit. In discussion it was explained that, if the United Kingdom safety net had been applied to 1982 and we had borne 5% of our net contribution above the limit, we would have contributed about 520 million ecu, i.e., 80 million ecu more than under the safety net scheme alone.

The Prime Minister said that such a course had the negotiating risk that there would be pressure to increase the contribution still further. Our reaction must depend therefore on the figures which would result.

On agriculture, the Foreign and Commonwealth Secretary said that there had been little progress on the strict financial guideline. Only the United Kingdom and the Netherlands were in favour of a legally binding guideline to be included in the Community's budgetary procedures. The French, however, had now given notice that they might propose an amendment of the budget procedure in order to set a maximum figure for total Community spending before the budget decisions were taken. The prime objective of the French would be to prevent the European Parliament and other member states pushing up expenditure in sectors such as the Regional Fund and Mediterranean infrastructure but a French initiative would still strengthen our negotiating hand. In bilateral discussions the Italians had also suggested predetermined budgetary limits for certain agricultural sectors (but not for Mediterranean produce). The Chancellor of the Exchequer said that a strict and legally binding guideline was the effective means of restraining expenditure. We must continue to press for it, despite the negotiating difficulties.

In discussion it was pointed out that the strict financial guideline raised major political problems for most member states. It was very hard for them to accept that a ceiling should be put on this expenditure.

The Prime Minister said that we had laid down, as a condition of even considering an increase in own resources, the correction of the budget inequity and effective control of the rate of increase of agricultural and other spending. We had to be satisfied on both points.

On specific proposals for agricultural products, the Minister of State, Ministry of Agriculture, Fisheries and Food said that there was some risk that the package would not be balanced. First, it ought to have a fair balance between products mainly of interest to the Northern member states and products mainly of interest to Mediterranean member states. Secondly, there were specific United Kingdom interests to protect. On the proposed super levy for milk, in particular, there were practical difficulties. 1981 was a bad base year for the United Kingdom and there would be distortion because producers who sold their output directly to the consumer would not pay the levy.

In discussion it was argued that the European Council on 4-6 December would not be manageable unless there were a package of agricultural measures which had been provisionally settled beforehand. It was clear that the United Kingdom could not obtain agreement to the scale of price decreases for milk (up to -12%) which would correspond to the problem. We must therefore go for the price restraint which was obtainable and be prepared to look at the super levy.

The Prime Minister said that it would certainly be helpful if progress on these agricultural issues had been made before the December meeting of the European Council.

On new policies the Foreign and Commonwealth Secretary said that the negotiation was developing satisfactorily on the basis of the papers from a number of member states including the United Kingdom. It was clear that the post-Stuttgart package would not be concluded without some statements on new policies. For this reason he was concerned that the United Kingdom should take up a reasonable position on the programme for information technology (ESPRIT). We should support the programme at or about the level proposed (5 year programme totalling 750 million ecu from Community funds matched by a similar sum from industry) but ensure that there was a review of expenditure during the period.

In discussion it was argued, on the one hand, that the ESPRIT programme was too large and, on the other hand, that both industry itself and the Chief Scientist (Dr. Nicholson) had argued that it would be a good programme. The question would need to be looked at again following the meeting of the Council of Ministers (Research) on 5 November.

The Prime Minister, summing up the discussion on the main elements of the post-Stuttgart negotiations in the run-up to the Athens December Council, said that subject to points made in discussion the United Kingdom should continue to be guided by the line set out in paragraph 12 of the memorandum.

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On contingency plans the Prime Minister, summing up a brief discussion, said that the meeting had taken note of the memorandum of 2 November. It was necessary, however, that, before the meeting of the European Council of 4-6 December, the United Kingdom should have decided on its response to a breakdown at Athens.

I am copying this letter to the Private Secretaries of those Ministers who were present and to Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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MR COLES

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

--- I attach a draft record of the meeting which the Prime Minister held on 4 November. I assume that, following recent precedent, you will distribute this over your signature. If you do not agree, perhaps you could let me know as soon as possible and I shall distribute it, subject to any comments which you may make.

D F WILLIAMSON

7 November 1983

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*Letter to Roger Bone
from A.S.C.*

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

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I am copying this letter to the print section of the Ministry who were sent out to Richard Wattfield.

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