



Ref. A084/1249

PRIME MINISTER

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Cabinet: Community Affairs

You may like to inform Cabinet of the Community aspects of your talks with the Portuguese Prime Minister on 17-19 April.

2. The Minister of State, Foreign and Commonwealth Office, (Baroness Young) will report on the negotiations on the reform of the Community's financing system and, in particular, on Mr Davignon's idea would in reality be a compromise between the disputed figures of 1,000 million ecu and 1,250 million ecu (1983 basis) as the reference figure for the system but would be expressed as figures for the threshold and the rate of compensation to be included in the system. When you discussed this with the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip on 5 April it was agreed that the United Kingdom should continue to seek some improvements in Mr Davignon's ideas and Sir Michael Butler has made our requirements clear to him. Following the Foreign Affairs Council on 9-10 April Mr Davignon decided to pursue his idea further with the French. Mr Davignon has at any rate been sufficiently encouraged to consider that it might now be worthwhile to set out his views informally in a document which he would make available to the French Presidency, the Germans and the United Kingdom. Our own position would still be reserved. Mr Davignon's initiative may be helpful. It complements but does not substitute for a possible high level understanding between France, Germany and the United Kingdom that a settlement might be reached before the start of the European election campaign or, failing this, at the June European Council.

3. The Minister of State, Foreign and Commonwealth Office, will also report on the Commission's proposal of 18 April to deal with the expected shortfall of 2.7 billion ecu in the 1984 budget by means of a 2.3 billion ecu loan from member states (the balance would be made up by savings). The legal basis would be a Council



Regulation under Article 235 of the Treaty, which requires unanimity. Thus the United Kingdom's position is strong. The loan would bear interest at market rates. It would be divided between member states according to their VAT shares and would be repaid in eight half-yearly instalments beginning June 1986. The United Kingdom is bound to reserve its position at this stage, both because we require a prior and satisfactory reform of the Community's finances and because it is too early in 1984 to accept that this unsatisfactory 1984 budget situation is inevitable. We made clear in the context of the agricultural price-fixing that expenditure for 1984 must be accommodated within the existing budgetary provision. The United Kingdom's response to the Commission's proposal will be considered by Ministers in OD(E) on 3 May.

4. You are meeting the Federal German Chancellor on 2 May and having a working lunch with the French President on 4 May. The key issue is to determine whether there is a will to settle on terms satisfactory to the United Kingdom the outstanding question (the reference figure for the United Kingdom's budget refund, however expressed, in the reformed financing system) before the European election campaign gets under way or whether we shall have to come back to this at the European Council in June.

A handwritten signature in dark ink, consisting of the letters 'RIA' in a stylized, cursive script.

ROBERT ARMSTRONG

25 April 1984