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PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the post-Stuttgart negotiations. The Special Council (attended by the largest ever number of Community Ministers) met on 30 August in order to discuss agriculture and the structural funds. The Foreign and Commonwealth Secretary set out the main elements of the British case for the changes necessary to restrain the growth of agricultural and other expenditure; the Chancellor of the Exchequer introduced the paper which we have tabled on a strict financial guideline for agricultural spending; and the Minister of Agriculture commented on the Commission's detailed proposals. (The Commission has proposed, on the positive side, a rigorous price policy, limits to certain open-ended guarantees, a reduction in some special aids or premiums and the phasing out of monetary compensatory amounts and, on the negative side, an oils and fats tax, more limits on imports and action on certain measures, such as the butter subsidy, of particular interest to the United Kingdom). As the Agriculture Ministers of all member states were present, many speeches were producer-oriented, and there was considerable opposition to a strict financial guideline. The Foreign and Commonwealth Secretary again put our views strongly to the President of the Commission at Chevening on 10 September, when it was clear that the Commission were not sympathetic to the United Kingdom's specific proposals for a budgetary safety net and for a strict financial guideline - though they have recognised that greater control of agricultural expenditure is necessary.

2. The next meeting of the Special Council on 20/21 September will be important; it will discuss two points - the central question of the unfair budget and the development of other policies. The budgetary discussion will cover the Commission's proposals for modulated VAT, the United Kingdom's paper on the safety net and a Danish proposal for a Convergence Fund under which payments would





be made for five years to any member state (in practice, the United Kingdom) with relative prosperity below the Community average and receipts below its share of the Community GDP. The Danish scheme would not be permanent and does not answer the main problem, which is that the United Kingdom pays too much money into the Community budget. We are recommending a very firm United Kingdom statement on the necessity for the safety net. On the development of other policies, the United Kingdom paper, although it covers little new ground, is well timed and should help us to direct the discussion along our lines. The Special Council will meet again on 10-13 October in Greece.

3. There have recently been three informal Council meetings - Finance, Agriculture and Foreign Ministers. The Finance Council had a general discussion of international monetary affairs in preparation for meetings of the International Monetary Fund and the International Bank for Reconstruction and Development. They also agreed to nominate the Belgian Finance Minister, Mr de Clercq, as Chairman of the IMF Interim Committee. Agriculture Ministers had an inconclusive discussion on structures. The Foreign Ministers' meeting on political co-operation was marred by the unprecedented blocking by the Greek Presidency of a resolution by the other nine member states condemning the Russian shooting down of the Korean airliner.

4. There will be a great deal of Community activity over the next seven days. You are meeting the Italian Prime Minister on 16 September, paying an official visit to the Netherlands on 19/20 September and dining with Chancellor Kohl on 21 September. The Foreign and Commonwealth Secretary will be meeting the Italian Foreign Minister on 16 September and the Belgian Foreign Minister on 18 September. The Foreign Affairs Council will meet on 19 September, when the United Kingdom will be pressing for the full payment of the risk-sharing element of the 1982 budget refunds (which is also under discussion in the Budget Committee of the European Parliament); the Special Council will meet on 20/21 September; and there will be an informal meeting of Energy Ministers in Athens on 23 September.

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