

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON : CABINET OFFICE

Post-Stuttgart Negotiations: Correction of the Budget Inequity

Thank you for your minute of 24 October about the discussions between the Chancellor of the Exchequer and Herr Tietmeyer in Brussels today.

The Prime Minister has considered the Chancellor's recommendation that she should send a message to Chancellor Kohl with the intention of dissuading the Germans from tabling their paper on the correction of the budget inequity. Mrs Thatcher is not inclined to send a formal message on this occasion, largely because she feels that the channel between herself and Chancellor Kohl has been somewhat overburdened with messages recently and that the Chancellor's mind is currently more likely to be on the issue of cruise deployment than on EC budgetary reform.

However, as I explained on the telephone, the Prime Minister would be agreeable to our Ambassador in Bonn calling on the Federal German Chancellery and speaking broadly on the lines of the proposed message, making it clear that he does so with her authority. As I told you on the telephone, certain parts of the message will need redrafting.

I am copying this minute to John Kerr (HM Treasury), Brian Fall (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

A. J. COLES

24 October 1983

CONFIDENTIAL



MR COLES

cc: Mr Kerr
Mr Fall
Sir Robert Armstrong

POST-STUTTGART NEGOTIATIONS: CORRECTION OF THE BUDGET INEQUITY

We understand from a discussion between the Chancellor of the Exchequer and Herr Tietmeyer in the margins of the ECOFIN Council today that the Germans are intending to table tomorrow in Brussels a paper on the correction of the budget inequity. This paper has not been discussed with the United Kingdom. It is likely to have serious disadvantages from our point of view because it apparently departs from assessing the problem on the basis of net contributions and also from expressing the limit on budget contributions as a percentage of Gross Domestic Product. It is said to be a combination of the Commission and Danish proposals, with the correction being made (rightly) through a reduction in VAT.

2. The Chancellor of the Exchequer has recommended that a message should be passed to Chancellor Kohl with the intention of blocking off the tabling of a paper in this form and setting up discussions, if necessary at Ministerial level.

3. I attach a draft message, for which we seek the Prime Minister's approval. Our Ambassador in Bonn will be given discretion whether to hand this over as a message or to speak to the points in it.

D F Williamson

D F WILLIAMSON

24 October 1983

DRAFT MESSAGE FROM THE PRIME MINISTER TO
CHANCELLOR KOHL

I understand from Nigel Lawson that you intend to table tomorrow in Brussels a paper on the correction of the Community budget inequity. The indications which I have had are that your paper departs from a measurement of the full budgetary burden which we each bear and substitutes for it a partial measurement of the problem. I understand that the paper would also move away from the United Kingdom proposal that there should be a link between the budget limit for our two countries and our national Gross Domestic Products. If so, I think that it would not fully ensure against the re-emergence of the unacceptable situations which we both seek to avoid. I could not agree to that.

You will recall that the United Kingdom's paper on a budget safety net to protect the position of net contributor member states was subject to extensive consultations between the United Kingdom and Germany before being tabled in Brussels. I do now ask you that a German paper should not be tabled until there has been proper prior discussion between Germany and the United Kingdom. We shall be ready to arrange this as soon as possible.

/I

I attach the highest importance to a successful conclusion of the negotiations which you launched at Stuttgart. It is a difficult, but not impossible, task to bring the other member states to recognise that the budget problem must now be settled on a basis acceptable to our two countries. I feel very strongly that if this is to be achieved we must stand together.

24 OCT 1983

