010

CONFIDENTIAL

Qz.03396

MR COLES

AA 3.11

EUROPEAN COMMUNITY: THE POST-STUTTGART NEGOTIATIONS

We have spoken recently about the wish of the Foreign and Commonwealth Secretary that there should be a meeting of the Prime Minister and the Ministers principally concerned in order to review the negotiating situation, preferably before the next Special Council on 9-12 November. We have prepared the attached Memorandum which summarizes the negotiating situation and signals the points which are most likely to be under discussion in the next round of the post-Stuttgart negotiations.

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

D F Williamson

D F WILLIAMSON

28 October 1983

CONFIDENTIAL

EUROPEAN COMMUNITY: THE POST-STUTTGART NEGOTIATIONS

Memorandum by the European Secretariat, Cabinet Office

---

1. This memorandum, which is primarily intended as a negotiating guideline for the period up to the European Council in Athens on 5-6 December, sets out the latest situation under three headings:

- correction of the budget inequity (the "safety net") and the Community's own resources

- changes in the common agricultural policy: proposals for specific products and the more general discipline of the proposed "strict financial guideline"

- other policies: the development of an enlarged Community and more cost-effective structural funds.

It invites Ministers to endorse certain conclusions directed to holding firmly to our course despite the siren voices. These conclusions concern the three headings above and the linked issue of how we ensure that the United Kingdom gets a correction of the budget inequity next year (1984 net contribution, 1985 budget) as well as the long term solution. It may of course be necessary for Ministers to take stock of our position again immediately before the European Council. Our interest is to achieve firm decisions at Athens which meet our stated conditions, as set out by the Prime Minister at Stuttgart. Even if - contrary to our wishes - Athens does not produce agreement, we shall want to keep the negotiation together as a package. The framework described in this memorandum would remain valid.

The "safety net" and the Community's own resources

2. The negotiations so far have reinforced our view that our safety net proposal is a very good scheme for the United Kingdom; that it properly measures the budget inequity; that it sets a genuine limit; that it is durable; and that, once the first

/difficult

difficult political decisions were taken, it would sharply reduce the budget controversy in the Community. It is recalled that applying our safety net scheme to the 1982 figures and using the GDP per head figures for an enlarged Community would give these results:

- UK's uncorrected net contribution:	2036 million ecu
- UK's actual corrected net contribution after refunds:	910 million ecu
- UK's corrected net contribution under the safety net scheme:	440 million ecu

Because of the developments of the exchange rate, the United Kingdom's corrected net contribution under the safety net scheme could be lower still in later years, other factors being equal. The United Kingdom's position under the scheme can be contrasted with the position of France which in most recent years has been a net beneficiary: on the same basis as above France would have become, if the safety net were applied, a net contributor of about 750 million ecu, ie substantially more than the United Kingdom.

3. The main criticisms of the safety net have been:-

(i) strong objections from most member states to the use of net balances and net contributions on the ground that it is inconsistent with the own resources system (we categorically deny this) and that the effect of levies and duties is not necessarily felt in the member state where they are collected. Accordingly the French and others have suggested the exclusion or adjustment of certain items so that the UK's net contribution appears substantially smaller than it really is. Beneath this argument is the crux of the matter, ie the amount of our net contribution and the size of the correction. We consider it essential to continue to insist on correct measurement of the net contribution and to include levies, duties and VAT. The Commission has been calculating net contributions on this basis since 1978. Any adjustment of

/levies

levies or duties in the calculations or any exclusion or redefinition of major items of expenditure would be a slippery slope towards a much worse result for the UK.

(ii) objection from Germany and others that under our scheme there would be 100% compensation above the limit. They argue that this would give the UK and others in a similar position no incentive to restrain rising Community expenditure because the protection afforded by the limit would be total. We have not accepted this argument nor is there any need to do so now. In a final and satisfactory settlement we might look at the possibility of contributing something at the margin to increases in Community expenditure in excess of our safety net limit. For illustration, if the compensation above the limit were 95 per cent, not 100 per cent, the UK's corrected net contribution on the same basis as in para 2 would be about 520 million ecu.

(iii) the expected objection from several member states, including France, that it would cost them too much and is too generous to Germany.

4. The other ideas already submitted to the Council for correcting the budget inequity, the reactions in the negotiations and the possibility for the UK to exploit them are:-

(i) <u>Commission proposal</u>. The Commission's proposal is that agricultural expenditure (as defined by them) which exceeds 33% of the budget should be financed on a different key. The new key would be based on the average of a member state's share of Community regulated agricultural production and its share of the Community's net operating surplus (this is a very odd concept in national finance) multiplied by its index of relative prosperity. We calculate that on 1982 figures the Commission's system would have limited the UK's net contribution to about 1550 million ecu, ie it would have saved us about

/480 million ecu.

difficult political decisions were taken, it would sharply reduce the budget controversy in the Community. It is recalled that applying our safety net scheme to the 1982 figures and using the GDP per head figures for an enlarged Community would give these results:

- UK's uncorrected net contribution:	2036 million ecu
- UK's actual corrected net contribution after refunds:	910 million ecu
- UK's corrected net contribution under the safety net scheme:	440 million ecu

Because of the developments of the exchange rate, the United Kingdom's corrected net contribution under the safety net scheme could be lower still in later years, other factors being equal. The United Kingdom's position under the scheme can be contrasted with the position of France which in most recent years has been a net beneficiary: on the same basis as above France would have become, if the safety net were applied, a net contributor of about 750 million ecu, ie substantially more than the United Kingdom.

3. The main criticisms of the safety net have been:-

(i) strong objections from most member states to the use of net balances and net contributions on the ground that it is inconsistent with the own resources system (we categorically deny this) and that the effect of levies and duties is not necessarily felt in the member state where they are collected. Accordingly the French and others have suggested the exclusion or adjustment of certain items so that the UK's net contribution appears substantially smaller than it really is. Beneath this argument is the crux of the matter, ie the amount of our net contribution and the size of the correction. We consider it essential to continue to insist on correct measurement of the net contribution and to include levies, duties and VAT. The Commission has been calculating net contributions on this basis since 1978. Any adjustment of

/levies

levies or duties in the calculations or any exclusion or redefinition of major items of expenditure would be a slippery slope towards a much worse result for the UK.

(ii) objection from Germany and others that under our scheme there would be 100% compensation above the limit. They argue that this would give the UK and others in a similar position no incentive to restrain rising Community expenditure because the protection afforded by the limit would be total. We have not accepted this argument nor is there any need to do so now. In a final and satisfactory settlement we might look at the possibility of contributing something at the margin to increases in Community expenditure in excess of our safety net limit. For illustration, if the compensation above the limit were 95 per cent, not 100 per cent, the UK's corrected net contribution on the same basis as in para 2 would be about 520 million ecu.

(iii) the expected objection from several member states, including France, that it would cost them too much and is too generous to Germany.

4. The other ideas already submitted to the Council for correcting the budget inequity, the reactions in the negotiations and the possibility for the UK to exploit them are:-

(i) Commission proposal. The Commission's proposal is that agricultural expenditure (as defined by them) which exceeds 33% of the budget should be financed on a different key. The new key would be based on the average of a member state's share of Community regulated agricultural production and its share of the Community's net operating surplus (this is a very odd concept in national finance) multiplied by its index of relative prosperity. We calculate that on 1982 figures the Commission's system would have limited the UK's net contribution to about 1550 million ecu, ie it would have saved us about

/480 million ecu.

difficult political decisions were taken, it would sharply reduce the budget controversy in the Community. It is recalled that applying our safety net scheme to the 1982 figures and using the GDP per head figures for an enlarged Community would give these results:

- UK's uncorrected net contribution: 2036 million ecu
- UK's actual corrected net contribution after refunds: 910 million ecu
- UK's corrected net contribution under the safety net scheme: 440 million ecu

Because of the developments of the exchange rate, the United Kingdom's corrected net contribution under the safety net scheme could be lower still in later years, other factors being equal. The United Kingdom's position under the scheme can be contrasted with the position of France which in most recent years has been a net beneficiary: on the same basis as above France would have become, if the safety net were applied, a net contributor of about 750 million ecu, ie substantially more than the United Kingdom.

3. The main criticisms of the safety net have been:-

(i) strong objections from most member states to the use of net balances and net contributions on the ground that it is inconsistent with the own resources system (we categorically deny this) and that the effect of levies and duties is not necessarily felt in the member state where they are collected. Accordingly the French and others have suggested the exclusion or adjustment of certain items so that the UK's net contribution appears substantially smaller than it really is. Beneath this argument is the crux of the matter, ie the amount of our net contribution and the size of the correction. We consider it essential to continue to insist on correct measurement of the net contribution and to include levies, duties and VAT. The Commission has been calculating net contributions on this basis since 1978. Any adjustment of

/levies

levies or duties in the calculations or any exclusion or redefinition of major items of expenditure would be a slippery slope towards a much worse result for the UK.

(ii) objection from Germany and others that under our scheme there would be 100% compensation above the limit. They argue that this would give the UK and others in a similar position no incentive to restrain rising Community expenditure because the protection afforded by the limit would be total. We have not accepted this argument nor is there any need to do so now. In a final and satisfactory settlement we might look at the possibility of contributing something at the margin to increases in Community expenditure in excess of our safety net limit. For illustration, if the compensation above the limit were 95 per cent, not 100 per cent, the UK's corrected net contribution on the same basis as in para 2 would be about 520 million ecu.

(iii) the expected objection from several member states, including France, that it would cost them too much and is too generous to Germany.

4. The other ideas already submitted to the Council for correcting the budget inequity, the reactions in the negotiations and the possibility for the UK to exploit them are:-

(i) Commission proposal. The Commission's proposal is that agricultural expenditure (as defined by them) which exceeds 33% of the budget should be financed on a different key. The new key would be based on the average of a member state's share of Community regulated agricultural production and its share of the Community's net operating surplus (this is a very odd concept in national finance) multiplied by its index of relative prosperity. We calculate that on 1982 figures the Commission's system would have limited the UK's net contribution to about 1550 million ecu, ie it would have saved us about

/480 million ecu.

480 million ecu. This is quite insufficient. It cannot solve our problem. On the other hand, there are two reasons why we want to keep the proposal on the table against the opposition of some member states who hate the use of an agricultural indicator: first, because it does not contradict a safety net but could run with it and, secondly, because it makes the budget correction on the contribution side, ie by adjusting the VAT payment.

(ii) Danish Convergence Fund and French amendments to it. The Danish proposal is that a new fund should be created to finance measures to partially offset (in principle, two-thirds) a member state's "receipts gap" eg in 1982 UK GDP share is 20.2% and UK share of receipts from the Community budget is 13% giving a receipts gap of 7.2%. We calculate that on 1982 figures the Danish system would have limited the UK's net contribution to about 1390 million ecu, ie it would have saved us about 650 million ecu. There are many restrictive conditions, eg duration of five years; a member state is only eligible if its GDP per head is equal to or lower than the Community average (which would not be the case for the UK after enlargement). If our gross contribution rose, the Danish proposal would not necessarily protect us. We have rejected the scheme with these conditions and also the payment of compensation through new measures, which would risk blockage in the Council and the European Parliament. One of the French amendments goes in our sense, namely that the correction should be made not through new measures but through adjustment of a member state's VAT contribution. We now have four member states (UK, Germany, France, Luxembourg) and the Commission arguing for the correction of budget inequities by cutting a member state's VAT contribution. This is a step forward. We may also be able to steal some other Danish clothes (eg the idea of convergence) provided that we insist on correct measurement of the budget inequity.

/(iii)

(iii) German proposals. These are not yet tabled and await further bilateral contact. In their present form they are a combination of the Commission's proposal and the Danish proposal but the correction would be made through a VAT adjustment. The Germans are suggesting that the receipts gap would be compensated according to a scale based on relative prosperity.

5. We are confronted with a difficult decision of tactics and timing. It seems to us that, if we are to capitalise on the agreement of France and Germany that the correction is to be made on the contribution side, there is a case for seeking at the right time a common position with France and Germany on the size of the correction. The Germans may be ready to accept a very high limit for themselves, provided that there is such a limit. It will probably not be possible to reach agreement with the French unless the solution gives them an adjusted net contribution which at the outset would not be significantly different from the UK's adjusted net contribution (in later years the schemes we like would allow the French net contribution to rise above the UK level). This depends critically on the amount of the reliefs for Germany and on the way in which other member states would finance the correction for the UK and, provided that our own limit is satisfactory, we can be flexible on this. It would be difficult for the French to refuse an arrangement of this kind and, if we could reach such an understanding with the French, they would have a strong incentive not to push up the UK's net contribution.

The Common Agricultural Policy

6. The UK's approach has been to get restraint on agricultural spending by three means: a tough price policy; some changes in the regimes for specific products; and the introduction of a strict financial guideline to ensure that the rate of growth of agricultural spending should be markedly less than the rate of growth of the Community's financial resources. On the financial guideline there is solid resistance to our proposal

/for

for a legally binding annual limit. The Dutch share our view that there should be a legally binding constraint but they think our approach over-elaborate and too rigid. They have outlined a guideline based on a three year moving average which would be included in a regulation and would set a figure for agricultural spending each year. The Commission propose political commitments by themselves and the Council to hold the growth of guarantee expenditure below the rate of growth of own resources over a number of years and some procedural changes to back this up, but nothing that is legally binding. The Germans also favour a political rather than legally binding arrangements. Others may be prepared at the end of the day to subscribe to a political commitment though some of them will resist strongly any formula which would be meaningful. In this situation our tactics should be to maintain our present position with a view to drawing as many member states as possible towards the Dutch position, which is not too far from our own.

7. On specific products the Commission has tabled about forty separate proposals. In such a wide-ranging package the United Kingdom has significant economic, agricultural and consumer interests to defend and promote. The results must be defensible in these terms, while contributing to restraint on the growth of agricultural expenditure. For example, we oppose the levy on intensive dairy farms (discriminatory, would affect some British farms, horrible to administer); we oppose dismantling the butter subsidy (special UK consumer interest and one of the few areas of the CAP from which we derive a net benefit); and we reject the oils and fats tax (effect on consumers, international trading reaction, wrong way to deal with the butter surplus). A large number of the Commission proposals, some of which are very important to the United Kingdom particularly on sheep and beef, will not come forward for detailed discussion until the agricultural price negotiations in the first quarter of 1984 when our negotiating position will not be strong. It is not yet clear which major points will be kept in the main post-Stuttgart negotiations package but our best estimate is as follows:-

(i) <u>milk</u>

(i) milk. The most likely elements are price, quotas and the treatment of small farmers. The United Kingdom is the member state which is insisting most firmly on some assurances that there will be price restraint, preferably for more than one year. There is widespread opposition to price reduction. The Commission has already proposed what is in effect a quota system, which would be enforced by the so-called super levy reducing the farmer's return on milk produced in excess of the quota to about one quarter of the support price. The Commission estimates that the whole package of agricultural market measures (excluding the oils and fats tax) of which the quota system for milk is a key factor would reduce expenditure in 1984 by about 650 million ecu and in 1985 by about 1800 million ecu compared with their budget forecast. The majority of member states will probably accept this system. Ireland is bitterly opposed. The United Kingdom has reserved its position unless and until we can be satisfied that the system is fair, legal and workable. We need to negotiate some changes in the proposal (eg on base year) but we shall then have to decide whether to support it, taking account also of the results obtained on the support price for milk. On small farmers we have taken the view that the case for extra measures is unproven and that in any event there should not be discrimination in price or levy. This point remains very important, however, for some member states and we may have to consider some increase in the direct aid for small milk farmers (currently 120 million ecu compared with forecast expenditure in the milk sector in 1983 of 4723 million ecu).

(ii) oils and fats tax. The proposal is to raise about 500 million ecu (estimated effect on the 1985 budget, 200 million ecu on the 1984 budget) by a tax on oils and fats, whether produced in the Community or imported. Butter fat would be excluded, on the grounds that it is already subject to the co-responsibility levy and

/would

would be subject to the milk quota system. We oppose the proposed tax because we consider that it does not tackle the fundamental problem which is a much faster growth of milk production than even the most optimistic estimates of consumption; that it is wrong to increase the Community's own resources by this backdoor method; that it imposes additional costs on the poorer consumers; and that it will damage international trading relations. We have support from Germany, the Netherlands and possibly Denmark in rejecting this tax. We have already made some progress in shunting off this proposal into the sidelines.

(iii) cereals. The two main issues are price and imports of cereal substitutes. The UK is in favour of a policy to reduce the gap between Community and US support prices (an objective which the Commission also support) and of operating and strengthening the guarantee threshold. We think that price action is desirable in itself and do not link it, as some member states do, with the stabilisation of imports of cereal substitutes (principally maize gluten feed from the United States). It is not certain that the French will agree an agriculture package (without the oils and fats tax and without a levy on intensive milk producers) unless they have something to show on cereal substitutes. Forthcoming talks between the Commission and the US authorities are unlikely to lead to voluntary limitation by the United States. A number of member states will press for the Commission to proceed unilaterally in the GATT. We are resisting this, particularly in view of trade relations with the US and certain other third countries. Our present objective should be to limit Community action to a mandate to the Commission to pursue a balanced package of Community cereal price restraint and stabilisation of cereal substitute imports through talks with the United States.

/(iv)

(iv) monetary compensatory amounts. This is a major battleground between France and Germany. Agriculture support prices in Germany, the Netherlands and the United Kingdom are currently (when compared at market exchange rates) higher than in the rest of the Community. This is because the green deutschmark, guilder and sterling rates, at which Community support prices are converted into national currencies, are undervalued by comparison with market rates. Price levels in these countries are kept up by positive monetary compensatory amounts, which act as taxes on imports and subsidies on exports. The Commission have proposed that there should in future be an automatic procedure for getting rid of all monetary compensatory amounts and aligning green and market rates. The French, who consider that German agricultural production and exports are being unfairly subsidised by the present system, strongly support them. The Germans are unwilling to go beyond the present gentleman's agreement (to which the UK is not a party) under which positive monetary compensatory amounts are removed gradually so long as their removal does not lead prices to fall in national currency terms. This position makes it impossible for the Germans to agree at the same time (i) to revalue the green deutschmark and abolish their positive monetary compensatory amounts and (ii) to agree to a price freeze on, for example, milk. It is not in the United Kingdom's interest to step into the firing line between France and Germany, but we do have three objectives. First, to ensure that any change in the arrangements for dismantling monetary compensatory amounts does not prejudice the pursuit of a rigorous price policy. Secondly, as an extension of that aim, to resist a suggestion by the Germans that the problem should be solved by effectively linking agricultural support prices to the strongest currency in future exchange rate realignments. This would have the effect of raising average Community support prices. Thirdly, to ensure that any new arrangements

/do

do take account of the special situation of countries such as the United Kingdom, with floating market exchange rates.

(v) other products. We must ensure a balanced package in which the Northern commodities are not the only ones affected. In recent years expenditure has risen most quickly on Mediterranean products such as wine, processed fruits and vegetables and tobacco; the accession of Spain and Portugal to the Community will increase this expenditure even more. We need agreement in principle to a firm price policy for Mediterranean as well as Northern products, and to ensure the more widespread application of thresholds limiting the guarantees or other specific support arrangements for such products. We want to keep beef and sheepmeat (where we currently have arrangements which suit the UK) out of the discussion.

Other policies

8. This area of discussion has not proved controversial but, in the light of the Stuttgart declaration, some substance in this chapter of the negotiation is a political need for some member states. In our own paper we directed attention to those actions which could benefit the Community and can be taken without extra public expenditure, in particular the completion of the common market (liberalisation of insurance and other services, the single administrative document, technical barriers to trade, lorry quotas, air services etc). We also set out criteria for new or improved policies where in our view expenditure at Community level would be cost-effective aid beneficial to the United Kingdom eg solid fuels, information technology (ESPRIT) and some research and development. The UK's paper has been well received in itself and has also made it easier to present our case for restraint on excessive expenditure in other sectors and for the correction of the present budget inequity. Many member states, particularly Italy and France, attach great importance to the future handling of other policies in the European Council. For these countries the decisions on agriculture and on the budget will be clear minuses and for

/them

them the development of new policies or the adoption of some of the French ideas on cooperation between industrial enterprises on a Community-scale is of political importance.

9. The main points which are likely to arise in the run-up to the Athens European Council are:-

(i) keeping the Athens discussion manageable. The UK has been strongly advocating a short list of positive points for Athens. We have put forward such a list which is nicely biassed in our favour but with each element justifiable in Community terms - insurance, single administrative document, action on standards, lead in petrol, lorry quotas, air services and solid fuels.

(ii) industrial policy. We have to refuse the protectionist element and the bias against inward investment in the French ideas, but there are also good points: for example, the importance of making progress on standards. Although our views and the French proposals are not in line in all respects, there is room for improving the legal and economic framework in which industries or companies themselves may decide to cooperate with Community partners in research, development and innovation.

(iii) structural funds and integrated Mediterranean programmes. Discussion on the structural funds will probably not be crucial but we have an important interest in ensuring that the large proposals for Mediterranean programmes do not give rise to significant extra expenditure. For this reason we have been arguing that they should do no more than provide the planning framework within which expenditure under the existing Regional, Social and agricultural structural funds may be made in these areas. In this way we wish to show that, despite the likely demands of Greece and Italy at Athens, the Mediterranean proposals are not ripe for decision.

(iv) decisions before the Athens European Council. There are certain decisions which will be sought before the Athens European Council, in particular on the

/financing

financing of the information technology programme ESPRIT (Commission proposal: an average of 150 million ecu a year over 5 years) and of Community research and development within a broadly agreed framework. The UK can support some but not all of these programmes and we need to agree an appropriate level of funding within the resources that will be available. In order not to prejudice our position in respect of the 1% VAT limit, we would need to make clear on the record that any decisions do not affect the UK's position on own resources as definitively set out by the Prime Minister at Stuttgart. The Stuttgart declaration itself makes very clear that decisions on all the issues can only be taken together at the end of the negotiation.

Timing and the 1984 refund

10. The Community is now at the limit of its financial resources ("stony broke" according to Mr Thorn) and the Commission is trying to defer certain agricultural payments into next year, thus making probable a similar situation in 1984. This strengthens our negotiating position. We have to be careful, however, that we still obtain the correction of the budget inequity for the UK in 1984 (budget 1985). If everything goes right at Athens, negotiation of the texts could still take some months. The own resources decision must be amended to include our safety net and possibly, if all our conditions are met, a new VAT limit. This requires ratification in all member states which could take up to a year (the original own resources decision was ratified by the six member states in 8 months). It follows that the 1985 draft budget will be presented and probably be adopted before ratification could be complete. We therefore need to ensure at the time of any long term settlement that it will apply to our 1984 inequity by a correction of the 1985 budget after ratification of a revised own resources decision. The preferred method would be a simple downward adjustment of our 1985 VAT contribution to take account of the limit which the new system would have imposed on our 1984 contribution.

/11.

11. If in a fully satisfactory settlement there were to be an increase in own resources, a single once for all increase in the VAT limit subject to all the full Parliamentary procedures seems likely to provide the only basis for agreement.

Conclusions

12. Ministers are invited to endorse these broad conclusions as a guide to the next stage of negotiations:-

(i) budget inequity

net contribution = as measure of burden / way in which remedy is determined.

(a) The United Kingdom must continue to insist on the safety net; on correct measurement of the net contribution for that purpose; and on correction on the contribution side ie by an adjustment of a member state's VAT payment. There is no objection to stealing elements of the Danish or other proposals for purely presentational reasons.

Limit of G.D.P. depending on relative wealth.

440. - 520.

2036 avge 5%

(b) On the size of the correction in favour of the UK we should also keep our position unchanged now. We should ourselves not rule out, however, the possibility that in a satisfactory overall settlement we could agree to compensation at marginally less than 100% of the difference between our uncorrected net contribution and our safety net limit. This method of adjusting our corrected net contribution might be used if, as a political means to a settlement, we were to decide to reach an agreement with Germany, France and the UK under which Germany would continue to have a very high limit and the net contributions of France and the UK were broadly comparable at the outset.

(ii) agriculture

(a) the United Kingdom should maintain unchanged its proposal for a strict financial guideline. Our tactics should be to draw as many member states as possible towards the Dutch proposal and to strengthen the Commission and probable German suggestions.

/(b)

Revision by Council
Total Money
by Joining VAT ceiling

(b) On specific products we should seek the strongest possible assurances on price restraint, particularly for milk and cereals; should reject the oils and fats tax; should negotiate on the quota/super-levy system for milk in order to satisfy ourselves whether it could be made to operate in a fair, legal and workable way and, in the light of this, should take our decision before the Athens European Council; should seek to divert pressure for action now on imports of cereal substitutes by supporting further exploratory talks between the Commission and the United States; should seek price-restraining action on Mediterranean commodities, for example by a wider application of guarantee thresholds; and, in relation to monetary compensatory amounts, should concentrate on clarifying the application of the Commission's proposal to the UK's variable monetary compensatory amounts, while continuing to oppose the German idea of a link with the strongest currency.

Legally binding
Constraint - by
incorporation in budgetary
procedure

Dutch - by
Council regulation

Price restraint linked
to production
thresholds

Don't concede any
special measures
before total package

Super levy - many
difficulties.

(iii) other policies. The United Kingdom should continue to press the case for the ideas in our own paper; should seek to limit the issues at the Athens European Council to a short list which should be as close to our own list as possible; subject to financial feasibility, should continue its support for ESPRIT and the framework programme for research and development; should react constructively to the French ideas on industrial cooperation while opposing protectionism and bias against inward investment; and should fend off the integrated Mediterranean programmes.

1981 +1%
- until clear for
U.K. & Irish.
Producers encouraged to
expand since 1981.
Producers - producers
20% French - 7% less

Irish getting 5% GNP
Out of community budget.

(iv)

M.C.A's - Strongest
currency.

(iv) timing and 1984 refund. If in a fully satisfactory settlement there were to be an increase in own resources, a once-for-all increase in the VAT limit seems likely to provide the only basis for agreement. In order to avoid any gap in our compensation, the United Kingdom should aim for the earliest reasonable date for implementation of any agreement reached by the European Council. We should require that the correction of the budget inequity would have to apply to 1984 by adjustment of the 1985 budget after ratification.

Cabinet Office

28 October 1983

Esprit. - Endorsement

£60m