CONFIDENTIAL

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MR COLES

PREPARATION FOR EUROPEAN COUNCIL, 19-20 MARCH

The Prime Minister is holding a meeting of Ministers most concerned with the post-Stuttgart negotiations at 4.45 pm on 8 March. I attach a brief for the Prime Minister on the points set out in the paper which I submitted to you on 5 March.

2. The Ministers present will be the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food. I understand that, if the Prime Minister wishes to also discuss the question of the Commission's possible request for an advance payment in March, the Attorney General would also be present.

3. I am sending a copy to Sir Robert Armstrong.

DF Williamson

D F WILLIAMSON

7 March 1984

CONFIDENTIAL

PREPARATION FOR THE EUROPEAN COUNCIL

BRIEF FOR THE PRIME MINISTER FOR THE MINISTERIAL MEETING AT 4.45pm ON 8 MARCH

Introduction

1. There is a meeting of the Ministers most closely concerned with the European Community's post-Stuttgart negotiations at 4.45pm on 8 March. The purpose of the meeting is to prepare the ground on the main issues for the European Council on 19-20 March. The European Secretariat of the Cabinet Office has prepared a paper, after discussion with Departments, as a basis for discussion.

2. The paper deals in turn with:

I. Correcting the budget inequity (paragraphs 4 to 16)

II. Budgetary discipline (paragraphs 17 to 20)

III. Own Resources (paragraphs 21 to 22)

IV. Agricultural Issues (paragraphs 23 to 24)

V. New Policies (paragraph 25).

The points on which Ministers are invited to take decisions are summarised in paragraph 26. The points for decision on correction of the budget inequity are set out in more detail in paragraph 16.

3. There have been some developments since the paper was written which you may also wish to refer to in the discussion and these are dealt with below.

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Correcting the budget inequity

4. Your discussions with President Mitterrand have shown that there is now a greater readiness within the Community to agree to a revised and lasting system for financing the Community which should be included in a revised Own Resources Decision and contain the various elements set out in paragraph 5 of the paper. There are, however, two points on which we are not getting a satisfactory response from other member states -

(i) they will not agree to relate the new system directly to the whole net contribution because they do not wish to take account of the excess element of customs duties and levies. It is possible, however, to achieve a genuine safety net and the figures we require by basing the system on the VAT share/expenditure share gap. The net result could still be - and could be fairly presented as - an adjusted net contribution which would be less than one third of our unadjusted net contribution, ie relief of more than two-thirds;

(ii) they are resisting the figures which must result from the system, if we are to accept it. This is the crux of the matter. The difference between the French suggestion of a United Kingdom unadjusted net contribution of 1200-1300 million ecu and our own proposal of a United Kingdom unadjusted net contribution of 400-500 million ecu (1982 figures, using relative prosperity index for Community of 12) is very far from the basis for an agreement.

You are sending to President Mitterrand a note which sets out United Kingdom views on these points.

5. The Cabinet Office paper makes clear that a scheme based on the VAT share/expenditure share gap could work for us, although it does not offer the same degree of certainty as one based directly on the net contribution. The uncovered part of our net contribution (our excessive share of customs duties and levies) may vary from year to year. Over the

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years 1979-1983 it has been about 340 million ecu but in the two most recent years it has been lower. It is impossible to predict reliably how it will develop but the most likely course is that this element will be static or falling, taking one year with another. The Chancellor of the Exchequer is likely to express some concern about the risk. The conclusion might be that, if the system were to relate to the VAT share/expenditure share gap, which implies for us that about 250-350 million ecu of our net contribution would not be subject to relief, the remaining room for manoeuvre would be narrow: in any event, we have to be satisfied that the United Kingdom's adjusted net contribution will not exceed the figure we have indicated as acceptable (400-500 million ecu on 1982 figures, using the relative prosperity of a Community of 12).

6. The paper does not attempt to assess the extent to which an agreement which left the United Kingdom with a net contribution of more than 400-500 million ecu could in the last resort be accepted if all other conditions were met.

Budget discipline

7. The discussion at the European Council will depend greatly on whether the French Presidency table a paper which comes close to being acceptable. If they do, we should be able to secure most of what we want, including insistence on subsequent incorporation of the agreement in a suitable form in the Community's budgetary procedures in a way which does not exclude the possibility of Treaty amendment. If they do not, we will have to fight hard to make the present Commission paper acceptable. The key elements for the United Kingdom are that we must have a properly defined strict financial guideline for agricultural expenditure; that it must be in the budgetary procedures of the Community; that it must be binding on all the institutions, which means that the Commission must also respect it in making agricultural

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proposals; and that this is most likely to be achieved within a new framework of budgetary discipline for all expenditure, which should not rule out the possibility of a Treaty amendment.

8. Ministers will need to decide whether at the end of the day to drop the insistence that the agricultural guideline should include the words 'markedly below'. The Chancellor of the Exchequer is likely to suggest that if we do, we should make clear that 'below' is not to be interpreted as 'equal to'.

Own resources

9. Although the Commission has proposed that the ceiling on own resources should be raised from a VAT rate of 1% to 2%, we should be able to insist that it should rise to no more than 1.4% provided that our two conditions are met and provided that the Germans stand firm.

10. The Prime Minister may wish to note that, if a system of correction of budget inequity is based on relative prosperity and GDP, the United Kingdom's net contribution will not rise with an increase in own resources. Our threshold will be set by relation to our GDP, not to the size of our net contribution. This remains true even if the system is based on the VAT share/expenditure share gap, since the size of the uncovered element (our excess share of customs duties and levies) is not affected by an increase in the VAT ceiling on own resources.

Agriculture

11. OD(E) will have reviewed the main issues, in particular milk and monetary compensatory amounts, at its meeting at 9.15am on 8 March. The Foreign and Commonwealth Secretary, as chairman of OD(E), will be able to report the outcome. On milk the main points are likely to be

- should we accept a two year phasing-in of the 97.2 million tonnes limit?

- is no concession for Ireland a breaking point?

On monetary compensatory amounts the Minister of Agriculture, Fisheries and Food has set out to OD(E) the various conditions which in his view we should require before we could agree to the latest German proposal.

12. There will also have been a discussion in OD(E) on the financial situation of the Community. The combination of agricultural payments deferred from 1983, the higher than expected rate of expenditure in early 1984 and the possible erosion of the Commission's proposals (eg phased introduction of the super levy on milk, the German solution for monetary compensatory amounts) means that claims for agricultural expenditure in 1984 could exceed the provision in the Community budget (about 16.5 billion ecu) by more than 1 billion ecu. The French Presidency may be seeking to use the European Council to agree that the necessary finance should be found in 1984. It would be dangerous to agree to this, as it will take pressure off. OD(E) will have considered what tactics the United Kingdom might adopt in these circumstances.

HANDLING

13. The Prime Minister may wish the discussion first to focus on budget inequity and in particular on the points in paragraph 16(ii) (whether, and on what conditions, the United Kingdom might be ready to consider a scheme based on the VAT share/expenditure share gap). The Chancellor of the Exchequer will have views. If Ministers do decide to accept this basis, they will wish to consider whether we should place any particular conditions on our acceptance.

14. On budgetary discipline the Prime Minister will wish to focus discussion on the need to incorporate any agreement into the budgetary procedures of the Community in a way which would permit us later to insist on the appropriate legal form (paragraph 19) and on "below" or "markedly below" for the agricultural guideline (paragraph 20).

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15. On <u>own resources</u> the Prime Minister will wish to ensure (paragraph 22) that Ministers are agreed that, if a satisfactory package is offered and the conditions which the United Kingdom has imposed are met, we should be prepared also to accept a revised VAT ceiling of 1.4%.

16. On <u>agricultural issues</u> the Prime Minister will wish to ask the <u>Foreign and Commonwealth Secretary</u> as Chairman of OD(E) to report on the outcome of that morning's OD(E) discussion on issues likely to come before the European Council. The meeting will then wish to consider whether it supports OD(E)'s conclusions, particularly on milk, monetary compensatory amounts and on the financing of agriculture in 1984.

17. On <u>new policies</u>, the Prime Minister may wish to ensure that Ministers are content with the present position described in paragraph 25 of the paper.

CONCLUSIONS

18. The Prime Minister will wish to draw conclusions on each of the above elements of the post-Stuttgart package. Paragraph 26 of the paper summarises the points on which conclusions may be required.

Cabinet Office

7 March 1984