



*Agree this*  
*Budget*  
*Approach, with us need*  
*M. J. take advice?*  
*replies*  
*A*

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PRIME MINISTER

30 MAY MANDATE : FOREIGN MINISTERS' MEETING

Since I had to leave before the end of our discussion on 1 December, I would like to set out again the case as I see it for attempting at the meeting of Community Foreign Ministers to secure guidelines of the right kind on the three chapters of the Mandate.

2. I am very anxious indeed to exploit to the full all the negotiating levers available to us to achieve a satisfactory settlement of the Budget problem. I would not support a renewed attempt to secure guidelines in the right terms if I thought that this would weaken our bargaining position in the spring or summer when a more direct and determined attempt to obtain what we want on the Budget will have to be made. I am, however, convinced that an agreement on the right guidelines would be positively helpful to us in the final negotiation - always provided we maintain, as you very clearly have done, the principle that there can be no agreement on the parts of the Mandate without agreement on the whole; that we do not trade words on the Budget part for substance elsewhere and that the guidelines themselves are, as I say, in the right terms.

3. On the Budget wording, we have four minimum requirements: valid in themselves, and designed also to make it more difficult for others to run the campaign for something "temporary, exceptional, degressive and arbitrary".

4. The four requirements are these:-





- (i) The guideline must include a reference to avoiding or remedying "unacceptable situations" for Member States. This phrase has a Community pedigree. It goes back to a formal communication by the Six to the UK at the time of our accession negotiation. We exploited the phrase in the earlier negotiations. President Mitterrand would like to get rid of it, but we cannot afford to let him do so. The Commission now exclude the phrase, no doubt deliberately and perhaps under the influence of Paris. We must have it in. It is right in principle: solutions must last as long as the problem. It is against the "temporary" etc. school;
- (ii) the budgetary corrective should not be defined as a special ad hoc arrangement for the UK. It should be defined in a way which would make it applicable to others if they found themselves in a comparable situation. The UK is not to be fobbed off with palliatives that are against the spirit of the Community. The way would also then be clearer for discussion of the Treasury's scheme;
- (iii) relative prosperity must be recognised as an objective criterion for the budgetary corrective. This is crucial. It provides the basis for our argument that the present outcome is perverse, and that the costs of the Community should be fairly shared. It is enshrined in the Financial Mechanism. It was the concept of my Hague speech approach. Again it contests the "ad hoc" school;
- (iv) the review clause must be worded so that the budgetary corrective is presumed to continue unless the review produces grounds for changing it. We do not want





another temporary agreement for a short period, followed by another argument. The onus of proof has to be placed on those who wish to change the corrective not those who wish to continue it. But we should not engage battle yet on the actual duration, since that would merely invite the others to stand on 3 years.

5. I am, of course, no expert on the farming side. But it seems to me that there can be a perfectly sensible relationship between the key Budget points and the agricultural aspects of the guidelines. There is no reason why we should approach this solely in terms of making concessions to French and Italian demands. We have important objectives of our own for the reform of the CAP, which would be furthered if we got them reflected in the guidelines.

6. For example, on prices it will be of real advantage to us domestically to secure the guideline which you discussed at the European Council and which makes it clear that in future the need to reduce surpluses and take account of price levels in other countries is to be given equal weight with securing a fair standard of living for producers. We could make good use of the guideline on bringing Community cereals prices closer to those in competitor countries.

7. I would attach particular importance to the guideline limiting the growth of agricultural expenditure in the terms proposed by Chancellor Schmidt (which lay a clear obligation on the Council and Commission to take the necessary measures to ensure the guideline is observed) and firmly rejecting the French and Danish alternatives. Similarly we need a guideline on limiting national aids in the terms which Peter Walker envisaged. We should negotiate hard on all these UK objectives.





8. As for the French and Italian demands, we should follow the rule that the guidelines must be no more precise (and preferably less) than those we are seeking on the Budget chapter. I accept of course that there can be no substantive concessions on agriculture in the absence of a fully worked out and satisfactory budget settlement. But we can identify the areas in which we know that there would have to be some movement towards the French and Italians as part of a general settlement. The present drafts dealing with cereal substitutes and long-term export agreements go no further than this. They are in line with what we envisaged before the European Council, and I think they are acceptable.

9. The outstanding issues are then small milk producers and Mediterranean agriculture. The Commission's new proposal on milk refers only to the continuation of the existing co-responsibility levy "taking account of the situation of small producers". This falls short of a substantive commitment to exemption for small producers from the ~~co-responsibility~~ levy, and might, therefore, be acceptable. If the French sought to insist on a more precise reference to exemption, our line should be that this could be considered by the Agriculture Council, but only if it was warranted by the price decisions and if the exemption were limited to part-time farmers and were largely or wholly financed by Member States. This would minimise any adverse effect on the UK net contribution. It would also deter Member States from being generous with the exemption and so avoid setting significantly unhelpful precedents for the future development of the CAP.

10. On Mediterranean agriculture we should in no circumstances go beyond a general reference to improving the regimes in question: and, at least in the first instance, we should seek to limit any reference to "improvements for the Mediterranean regions" rather than in the provisions for the individual products. This would leave it open for us to argue later for other less costly forms of assistance, through structural





expenditure or perhaps EIB loans.

11. None of this would amount to making a substantive concession before we had substantive satisfaction on the UK's Budget contribution.

12. I do not rate very highly our chances of securing an agreed set of guidelines at the Foreign Ministers' meeting. I do believe however that the effort itself would be to our advantage. At the next and more difficult stage of negotiation nobody would be able to say that we had not made a determined effort, both at the European Council and at the Foreign Ministers' meeting, to secure agreement. By making these efforts we do something to break up the unity of the front against us on the type and scale of Budget solution which we want.

13. I hope therefore that we can agree that an attempt to secure guidelines of the right kind should be made at the Foreign Ministers' meeting, that the Budget guideline we seek should incorporate the four essential elements referred to above, and that we can, without damage, approach the agricultural issues in the way I have suggested.

14. I am copying this minute to the Foreign and Commonwealth Secretary and the Minister for Agriculture, Fisheries and Food.

*Approved by the Chancellor  
and signed in his absence.*

*L. P. Lewis  
2/11*

(G.H.)

3 December 1981