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MR COLES

Handley on

Prime Minister

The Foreign Secretary may want to have a word about the Foreign Minister's meeting when he comes to see you on Monday.

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FOLLOW UP TO EUROPEAN COUNCIL: 30 MAY MANDATE

Mr 1/2.

1. Mr Alexander's letter of 4 December instructed officials to agree detailed briefing for the informal meeting of Foreign Ministers on 14/15 December. Sir Robert Armstrong's minute of 7 December undertook to report further following the Minister of Agriculture's minute to the Prime Minister of 7 December.

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2. Of the three agricultural issues, the most difficult is milk. In his minute, the Minister of Agriculture explained his unwillingness to envisage helping small milk producers in any way which built a competitive advantage into the milk regime itself. For this reason he was unwilling to accept either the Chancellor's suggestion that we might agree to continue the milk co-responsibility levy "taking account of the situation of small producers", or the German scheme, even though the latter would have a less adverse impact on the UK than the Commission's original proposal. The brief on milk will therefore say that, in the context of a satisfactory package, we would be ready to consider measures to help the small milk producer, but not in any way tying the measures to the co-responsibility levy and leaving us free to argue later that the appropriate method was through temporary income aids largely financed nationally. Secondly, we shall argue for either the supplementary levy on milk or a reduction in intervention prices, and only agree to the continuation of the present type of co-responsibility levy if other member states accept one or other of these principles.

3. On the guidelines for agricultural expenditure, the Foreign Secretary will be advised to support the text proposed by Chancellor Schmidt at the European Council which would lay a clear obligation on the Council and Commission to ensure that agricultural expenditure grew less rapidly than own resources. If the Germans can accept a less binding formulation then we would be ready to follow them but only if our requirements on a budget corrective had been met.

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4. On Mediterranean agriculture, the Foreign Secretary will be recommended to support the Germans, but be ready at the end of the day to accept a reference to "improving" the Mediterranean regimes, provided it is in very general terms and not linked to the specific products.

5. As regards the Budget problem itself, the Prime Minister agreed that the Chancellor of the Exchequer's minute of 3 December provided a satisfactory basis for negotiating guidelines and the brief for the Foreign Secretary is being prepared accordingly. It is possible that the French and others will come to the meeting intent on discussing figures, or at least defining the limits of what they are prepared to contribute towards refunds for the United Kingdom. It is unrealistic to believe that a real negotiation on figures could be mounted, still less brought to a satisfactory conclusion at this meeting.

6. The Foreign Secretary intends to have a first exchange on all four issues when the meeting opens at 6 pm on Monday evening; to have dinner with the Foreign Ministers alone on Monday night; and then devote Tuesday to discussing texts. It is of course understood that only a balanced outcome is acceptable: words for words or principles for principles. Given our own minimum requirements and what we know about the position of other governments, the prospects for agreement are slim. If a text can be agreed, it will be reported to Heads of Government as proposed by the Prime Minister at the European Council. If there is no agreement, the Foreign Secretary will propose the fall back position we had in mind at the time of the European Council, namely that we should no longer pursue the idea of guidelines but work for a detailed budget settlement and detailed changes in the CAP to be decided upon at the time of the next price fixing.

M D M FRANKLIN

11 December 1981