



PM/82/82

PRIME MINISTERCommunity Budget Problem

*We must look
back at our records
down liberalism
for the previous
part. not*

1. A meeting of OD has been arranged for Wednesday 20 October to consider a progress report on action taken since the Committee's last discussion of the Community budget problem and a paper by officials on what the UK might aim to get out of the fundamental review of Community finances which the Commission are likely to propose some time this autumn.

2. This minute is principally concerned with the more immediate problem of UK refunds for 1982, 1983, 1984 and (possibly) 1985. I have discussed it with the Chancellor of the Exchequer and the Minister of Agriculture who are, I understand, in general agreement with what it says.

1982 Refunds

3. Our first aim, in the immediate future, must be to overcome French back-sliding and secure the implementation of the 1982 agreement reached on 25 May. There are some signs that the French may be seeking agreement and I shall do everything possible to get one at the October Foreign Affairs Council.

The solution for later years

4. Our objective must continue to be a lasting solution to the problem. But I think that we must realistically recognise that there are difficulties in the way of securing that objective in one bite:

- (i) Many of the other member states will do all they can to avoid a lasting solution; and the prospect of a wide-ranging review made necessary by

/enlargement



- enlargement and the potential exhaustion of own resources gives them a perfect excuse for refusing to discuss the possibility in advance of the review.
- (ii) The French in particular will be adamant in refusing commitment to anything beyond 1984.
(They have even tried to go back on that date.)
The others will contentedly hide behind the French.
 - (iii) Political changes in a number of other member states and the general economic climate will make it virtually impossible for their governments to commit themselves to far-reaching decisions this year or in the early months of next year.

5. When the negotiations on the post-1982 arrangements begin, we must obviously continue to insist on the need for a durable and definitive solution. The initiative lies with Thorn who, in view of the difficulties mentioned in paragraph 4 above, is likely to propose that the solution be sought in two stages, namely (i) a major review which would look at the problems of enlargement and own resources as well as the problem of unacceptable situations and (ii) an interim solution for the United Kingdom while the review is going on.

6. If he does make such a proposal, I consider that it would be in our interest to agree to negotiate on that basis and seek to ensure that the terms of reference for the review make it clear that a lasting solution to our problem will be one of its objectives and that the interim solution meets our requirements. On the second point, it is obviously crucial that the terms of the interim settlement do not prejudice our chances of obtaining a satisfactory long term solution as a result of the review.

/7. If the



7. If the Thorn proposals fail, as well they might, and the end-November deadline is passed with no sign of progress towards agreement, then we shall have to consider our policy again. One possibility, in such circumstances, would be to make it quite clear that we were no longer prepared to participate in successive negotiations of short term solutions and that the Community should immediately proceed to negotiate a lasting solution independently of the questions of enlargement and the possible exhaustion of own resources. We should need to think further about precisely how and when to make such a change in our position and also whether we should at any stage threaten to withhold our contribution if the Community failed to agree on a lasting solution by any particular date.

8. In the meantime the following decisions are needed:
- (i) what our requirements are for the scope of the review. This is for decision at OD on 20 October on the basis of the report by officials, OD(82)68;
 - (ii) what our requirements are for the years while the review is going on - ie the 'interim solution' is discussed below.

The interim solution

9. A review would take time. The Commission might reasonably be asked to submit their proposals by the spring of 1983. But experience suggests that the subsequent negotiations would take at least a year. In other words, we could not realistically hope to be able to report the outcome of a successful review before the next election.

10. At Chevening Thorn mentioned the possibility of an interim solution lasting 2 or 3 years. Obviously if a 3 year deal were on offer on satisfactory terms we should agree; but the French position makes it unlikely that we should get an agreement for longer than 2 years.

/11. We have



11. We have received no official indication of what the Commission are likely to say about figures. From what we have picked up in informal contacts it appears that the most they are likely to propose is a refund of around 1,000 mecu in 1983 towards an estimated unadjusted net contribution of some 1,800 - 1,900 mecu. Assuming a two-thirds basic refund this would imply a further restitution of some 200 - 270 mecu in respect of the alleged over-payments. They may not suggest any figure for refunds for 1984 on the grounds that the Commission are quite unable to forecast the unadjusted net contribution so far in advance.

12. This is clearly not good enough. We must do what we can to persuade the Commission to improve on these ideas before Thorn tables them. Both in this lobbying campaign and in subsequent negotiation, our requirements should be as follows:

- (i) A basic 66% refund of the Commission estimate of our unadjusted net contribution for each year.
- (ii) The best risk-sharing formula obtainable. Our opening position should be that we require a formula mid-way between those agreed for 1980 and 1981. Our fall-back should be a formula no worse than that for 1982.
- (iii) The smallest possible further restitution of the alleged 'over-payments'. Our first objective should be to discredit the French argument that the other member states have a legal right to restitution. But we should at the appropriate time indicate that we are prepared to make a further gesture comparable in size to the restitution of 158 mecu which we agreed on 25 May provided that others meet us on (i) and (ii) above. If it would clinch the deal we should be prepared to agree to a further restitution of 250 mecu in full and final settlement divided equally between the 2 years



1983 and 1984 (or, if appropriate, the 3 years 1983 - 85).

Forthcoming meetings

13. I now turn to the three key meetings that you will be attending between now and mid-December.

Anglo/German Summit - 28/29 October

14. Your meeting with Chancellor Kohl on 19 October is unlikely to get into detail on Community issues. The Anglo/German Summit on 28/29 October will be our first opportunity to convince Chancellor Kohl and his CDU/CSU colleagues of the need to find a lasting solution to the budget problem that is fair to both Germany and to the United Kingdom. The Schmidt government was largely responsible for the breakdown in the negotiations in the spring. They declined to co-operate with us in finding a lasting and Community solution to the problem and they took the line that Germany only had a problem because of the need to contribute to refunds insisted on by the United Kingdom. They led the pack in pressing for a low figure for our basic refund and then in addition refused to pay their normal share of it.

15. It will clearly be very difficult for the Kohl government to concede a normal financing share for UK refunds in respect of 1983 and 1984, given what their predecessors achieved for 1982. But we must not miss this opportunity to persuade them to be more constructive than their predecessors. We need to convince them that it is in their interest to make the review an occasion for establishing both a better system of control over Community expenditure and also a permanent check on the size of the net contributions of the net contributors. In doing this we must be very careful not to give them the impression that we are trying to gang up against France. Kohl will not co-operate in an explicitly anti-French policy.

and gross contributors as well.

/Anglo

Anglo/French Summit - 4/5 November

16. Mitterrand will, no doubt, attempt to confine his remarks about the budget problem to a broad general statement of his position. He can be expected to listen without much comment to what you say and to suggest moving on to other business. This would accord with his policy of containing contentious issues so that they do not damage the broad pattern of Anglo/French relations. He will thus leave himself free to encourage his Ministers to be exceedingly tough in the detailed negotiations.

17. It will not be in our interest to allow him to conduct the Summit in this way. The French President must be made to realise that the budget issue, if unresolved, would do profound damage to relations between Britain and France, France and Germany and the future of the whole Community. He must be convinced that there is no way in which France will avoid contributing to refunds for the UK in respect of 1983 and 1984. If at all possible, we should also persuade him to co-operate with the UK and Germany in working out a viable system for the longer term. We should point out that French interests would be served by such a system, since in the longer term after enlargement the French might well become permanent net contributors to the budget.

European Council - 3/4 December

18. If the 1982 issue is not solved by then or, even though that issue is solved, there has been no progress towards a solution for the longer term, the UK will have no alternative but to make the Budget problem a major subject on the agenda of the European Council. Our policy would need to be reviewed as I have suggested in para 7 above.

/19. A more



19. A more favourable possibility is that the 1982 refunds will have been settled and, although no decision has been taken about later years, there seem good prospects of getting a satisfactory two-stage solution. Our aim at the Council on this hypothesis must be to get a procedure agreed for solving the problem along the lines of paras 5-6 and paras 8-12 above before the first European Council under German Presidency (whenever that is - the date currently planned, 21/22 March, may be affected by the General Elections in Germany).

Conclusion

20. I should be glad to have your confirmation that you are content with the broad approach recommended above.

21. I am sending copies of this minute to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
15 October, 1982



15 OCT 1982

12 1 2 3 4 5 6 7 8 9 10 11 12
D
H