

CONFIDENTIAL

Qz.03552

MR COLES

Top copy
on Euro for
Budget
copy in
BRIEFING
FOLDER

POST-STUTTGART NEGOTIATIONS

I attach, as you requested, a short summary of the United Kingdom objectives in a form which the Prime Minister may find useful for her papers for the lunch with President Mitterrand on 23 January.

I am sending copies to Roger Bone (FCO) and to Sir Robert Armstrong.

Df Williamson

D F WILLIAMSON

20 January 1984

CONFIDENTIAL

CONFIDENTIAL

POST-STUTTGART NEGOTIATIONS: UNITED KINGDOM OBJECTIVES

Budget

1. The United Kingdom objective is reform of the Community's financial system to deal with the budget inequity (the so-called "budget imbalance"). The revised system should:

(i) be lasting, ie it must deal with the problem as long as it remains. This can be achieved by including the changes in the revised Own Resources Decision, which would in any event have to be revised if there were an increase in the 1% VAT ceiling;

(ii) set limits on member states' net contributions. The limits should be based on ability to pay and should be established as a percentage of a member state's gross domestic product;

(iii) correct the inequity by reducing a member state's VAT contribution in the following year ("on the revenue side"). (French agree);

(iv) should come into effect so that it can apply in respect of 1984 and later years. This means that we need the revised system to apply first to the Community's 1985 budget (when we would get our VAT contribution reduced in respect of 1984).

2. The United Kingdom's proposal to meet this objective is the safety net (estimated effect, if it had applied in 1982, in annex). The French do not like the fact that the United Kingdom's proposal sets a limit and gives relief relating to the whole of the net contribution (ie corrects the effect not only of our inadequate receipts from the Community budget but also of our disproportionate contribution to the Community of customs duties and levies as own resources). We must have a result which in fact gives relief equal to a substantial part of our net contribution but we seek to avoid a sterile argument about the concept of net contributions.

/3.

Control of agricultural and other spending

3. The United Kingdom objective is more effective control of Community spending and, in particular, a strict financial guideline to hold the rate of growth of agricultural support expenditure markedly below the rate of growth of own resources.
4. There is a good measure of agreement on a strict financial guideline for agricultural spending but most member states want only a political commitment. We want to include it in the budgetary procedures of the Community (not necessarily by a Treaty amendment).
5. Late last year the French came forward with proposals (the Delors proposals) for a strict financial guideline for all spending with a sub-guideline for agricultural spending. We believe that this may yet provide the basis for an agreement, although we continue to insist that more than a political commitment is necessary.

Agriculture

4. The United Kingdom objective is to get some changes in the operation of the common agricultural policy which would put it on a much sounder basis for the long term. In particular, we believe that it is in the Community's interest to have a rigorous price policy; effective guarantee thresholds when production exceeds or threatens to exceed remunerative outlets; effective measures to restore a better balance in the milk market (if necessary, a non-discriminatory quota/super-levy system); a narrowing of the gap between Community support prices for cereals and those of our principal competitors; and restraint in expenditure on Mediterranean as well as Northern products. These questions are now being discussed again in the Agriculture Council.
5. The French see the main agricultural issues as milk; monetary compensatory amounts; imports of cereal substitutes (maize gluten feed); and the oils and fats tax (which Germany, Netherlands, Denmark and UK reject).

/6.

Other policies

6. The United Kingdom objective is to press ahead with the "completion of the common market" in goods and services, eg removal of administrative barriers to trade, liberalising of lorry quotas, early progress in liberalising structure of air fares, early adoption of a genuinely liberal non-life assurance directive.

7. Anglo/French relations on "other policies" are quite good. The French have a strong interest in encouraging more industrial cooperation between enterprises in the Community and in support for high technology sectors. We have been careful to avoid any commitments to higher expenditure and greater protectionism but are well disposed to improvement of the conditions in which individual enterprises will themselves decide that industrial collaboration within the Community would be in their interest.

Own resources

8. We are prepared to consider an increase in the 1% VAT ceiling, which in our view is a fundamental change in the Own Resources Decision requested by other member states, provided that there is a fairer sharing of the budgetary burden and effective control of agricultural and other spending.

Cabinet Office

20 January 1984

ANNEX

The following are the main figures if our safety net system had been applied to 1982 -

	million ecu		
	<u>UK</u>	<u>Germany</u>	<u>France</u>
Unadjusted net contribution	2036	2086	19
(for information) UK adjusted net contribution if we obtained two-thirds relief, as under ad hoc arrangements	679	-	-
Safety net limit on net contribution	437	2118	1385
Adjusted net contribution after application of safety net and payment of all reliefs on a VAT-based key	437	2118	692 *

* this figure could be lower (eg 500 million ecu) if a special key for financing the relief were used.

Qz.03553

MR COLES

↑
COPIES

TOP COPY
on two for
budget

ALSO IN
BRIEFING
FOLDER

I sent to you yesterday a note of our objectives in the post-Stuttgart negotiations and their conformity with the Treaty of Rome. The French are also inclined to imply that our views on certain issues such as the cereal substitutes are contrary to Community preference and out of line with Treaty objectives. In case this should be mentioned, I attach an additional page about Community preference and the Treaty of Rome.

I am sending copies to Roger Bone (FCO) and Sir Robert Armstrong

D. F. Williamson

D F WILLIAMSON

20 January 1984

4. Agriculture: Community preference

Stuttgart declaration: one of the points listed among the agricultural questions which will be examined is "substitutes and Community preferences".

Treaty of Rome,
preamble and
article 110

The United Kingdom is not disputing that the Community's commercial and agricultural policies normally give a preference to Community goods (effect of tariffs or levies). This is not, however, an overriding requirement. We also have obligations relating to international trade. The preamble to the Treaty of Rome includes the objective -

"desiring to contribute, by means of a common commercial policy, to the progressive abolition of restrictions on international trade"

Article 110 states that -

"By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers."

(" . . . contribuer, conformément à l'intérêt commun, au développement harmonieux du commerce mondial, à la suppression progressive des restrictions aux échanges internationaux . . .").