



Prime Minister

A.J.C. $\frac{2}{3}$

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FOREIGN AND COMMONWEALTH SECRETARY

COMMUNITY FINANCING

I have been watching with interest your discussions with Dumas and other Community Ministers, and I am grateful to you for keeping me so closely informed. There has clearly been some useful movement by the French: we must concentrate on trying to strike a deal with them, while watching that they do not manoeuvre us into being the odd man out.

2. This suggests to me that the Prime Minister's meeting on Monday with President Mitterrand will be particularly important. The following are the main points which occur to me on reading the draft brief.

3. First, we are furthest from the French on budgetary imbalances - both on system and amounts. It will be important to impress on President Mitterrand that we must have a system defensible in terms of our full net contribution as it has always been measured. I should have thought that the Prime Minister's brief ought to describe this as one of the main objectives for Monday's talks. I accept that it is not impossible as a matter of arithmetic to devise a VAT/expenditure gap system, on the lines now advanced by the French and others, so as to produce a UK net contribution (in an enlarged Community) at around the 400-500 mecus figure which the Prime Minister floated at Athens. But the fact is that it is very difficult to do so. Other concessions are being pressed on us; and, as you pointed out to Dumas, we would remain at risk on the levies and duties "gap", which our latest assessment suggests is unlikely to diminish, and could grow.

4. Secondly, on budgetary discipline, you have clearly moved the French quite a bit, particularly on the possibility of a Treaty amendment. But other member States are going to resist this (as I believe was confirmed at COREPER yesterday), and we are still some way from securing any legally binding control on agricultural spending, which must remain our main objective in this area. Again, therefore, it would be helpful if the Prime Minister's brief could bring out



the priority we attach to establishing a control on agricultural spending that cannot be breached by the Agriculture Council at the price fixing; and ensuring that both this and any overall budgetary control binds the Council, Commission and Parliament.

5. Finally, I am a little concerned at some recent reports on aspirations on own resources. The Commission have now recommended 2 per cent; and there has been some impression, reflected by Chancellor Kohl, that we are ready to go to 1.5 per cent. The Prime Minister corrected this with Kohl; and you have done so with Dumas. Mitterrand has been reported as ready to go to 1.6 per cent. It would be useful to make it clear to him that, at a time when - not without a struggle - we are holding public expenditure constant in real terms, it will be remarkably hard for us to justify more than a very limited increase in own resources, even if our other conditions were met.

6. Copies of this minute go to the Prime Minister, the Minister of Agriculture, and Sir Robert Armstrong.

A handwritten signature, possibly 'N.L.', in dark ink.

N.L.

2 March 1984

2 - FEB 1984

