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PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the negotiating situation for the European Council in the light of the Foreign Affairs Council on 12-13 March and the informal meeting of Foreign Ministers on 13 March. The negotiation is now likely to concentrate increasingly on the reformed financing system and, in particular, on the results which it must give for the United Kingdom. Other member states purport to find few difficulties on other issues and to see the European Council as facing "the British problem", whereas in fact they will be in serious difficulty themselves unless they obtain United Kingdom agreement to an increase in own resources. On the fair sharing of the budget burden the French Presidency noted that there was agreement that any settlement should last as long as a new own resources decision, that it should be linked with relative prosperity and that action should be on the revenue side. All other member states suggested that the system should be applied in such a way as to give a refund to the United Kingdom in the range 700-1,000 million ecu. The United Kingdom rejected this. In addition, we continue to take the view that the problem should be seen in terms of the adjusted net contribution, not in terms of a refund to the United Kingdom. On own resources most member states are in favour of a VAT ceiling higher than 1.4 per cent but below the Commission's proposed 2 per cent. The Germans were firm on 1.4 per cent as the maximum, if all other conditions were met. The Presidency suggested that no decision might be taken on the level of increase of own resources until June when it would be possible to see what had emerged on agriculture, enlargement and new policies. A new text on the control of agricultural and other spending will be circulated by the Presidency. It will be shorter and will combine elements of Commission and Dutch proposals. The Foreign and Commonwealth Secretary reiterated our conditions, in particular that the strict financial guideline for

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agricultural spending must be incorporated in a legally binding form in the budgetary procedures of the Community. We are withholding judgment until we see the revised Presidency text.

2. The Foreign Affairs Council reached agreement in principle on four energy issues - coking coal, the need for social measures based on the 60 million ecu available in the budget, on 265 million ecu of new credits for energy demonstration projects and on a text on solid fuel investment for discussion in the Energy Council. The Council was also near to agreement on the common commercial policy regulation on a basis acceptable to the United Kingdom. France and Italy, reviving a link with the post-Stuttgart negotiations, blocked the regulations on the United Kingdom's 1983 budget refunds, in spite of agreement on all outstanding points both by the European Parliament and other member states. It was agreed, however, that the Council would meet again on 20 March to adopt the regulations and consider Commission proposals for transferring the finance from the reserve chapter of the budget.

3. The Minister of Agriculture, Fisheries and Food will report that the Agriculture Council on 11-13 March reached provisional agreement on milk. This provides for quotas to be introduced for five years from 1984-85. Above the guaranteed quantity of 97.2 million tonnes, which will be reached after a transitional period in 1984-85, a superlevy will be charged at the punitive level of 75 per cent of the milk target price (100 per cent in the case of a collective quota). The additional cost of phasing will be met by a 1 per cent increase in the basic milk levy for one year. Although the overall figure will be divided among member states on the basis of 1981 deliveries plus 1 per cent, the quota allocation within individual member states will, as we wanted, be on the basis of 1983 figures. Member states will have the option of operating the system at dairy or, as we intend, at farm level. A small margin of flexibility has been built in by means of a reserve of 600,000 tonnes, but there are no special exemptions. The agreement is subject to a general reserve pending settlement of the wider package and to specific reserves by the United

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Kingdom and the Netherlands on the 600,000 tonnes set-aside and by Ireland on her wish for an exemption. The proposed levy on intensive milk production has been rejected. The butter subsidy will be at a reduced level but, taken with the other alterations in intervention prices, it will mean no increase in United Kingdom butter prices at retail level.

4. The Agriculture Council also agreed a draft text on monetary compensatory amounts (mcas). This would include an immediate elimination of three percentage points from all mcas, a five percentage point reduction in German mcas from 1 January 1985 to be financed primarily by Germany increasing their VAT reimbursement to farmers, and the elimination of remaining positive mcas by 1987-88. Any change in the United Kingdom's green rate would be dealt with in future annual price-fixing proposals. The text is subject to a general reserve pending an acceptable reform of agricultural policy and its financing. The United Kingdom entered additional reserves. The Minister of Agriculture, Fisheries and Food secured, as OD(E) agreed, that there should be no immediate change in the green pound. The Agriculture Council will meet again before the European Council.

5. There was also an Internal Market Council on 8 March at which the Parliamentary Under Secretary, Department of Trade and Industry (Mr Fletcher), represented the United Kingdom, and a Finance Council on 12 March, when the United Kingdom was represented by officials, but neither took decisions requiring a report to Cabinet.

6. You and colleagues will be attending the European Council on 19-20 March. The Agriculture Council is meeting on 16-17 March in an effort to complete the major outstanding elements in the agricultural package and the Foreign Affairs Council on 20 March to adopt our 1983 refund regulations. There is a Transport Council on 22 March.

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ROBERT ARMSTRONG

14 March 1984

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