

Prime Minister

Ref.A084/912

A.S.C. 27/11.

PRIME MINISTERCabinet: Community Affairs

You will wish to give Cabinet your assessment of the European Council on 19-20 March and of the continued blockage by France and Italy of the regulations implementing the United Kingdom's 1983 budget refund which was agreed at Stuttgart. You may wish to stress that:

(i) after the first discussion the French Presidency produced a text which was acceptable to the United Kingdom on many major points, in particular the control of agricultural and other spending and the system for ensuring a fair sharing of the budget burden. Thus, substantial progress was made on budgetary discipline, budget imbalances, new policies and structural funds. The negotiation was set back by the Taoiseach's walk-out over their demand for a substantial concession on the milk superlevy. It then proved impossible to pin down an agreement on the system for ensuring a fair sharing of the budget burden and on the level of the compensation for the United Kingdom which would result from the system;

(ii) you were prepared to agree to a lasting system which would have given compensation to the United Kingdom of 1250 million ecu on 1983 figures, ie a net contribution of 663 million ecu. The system would have resulted in similar results in future years, depending on the United Kingdom's relative prosperity, ie it would normally have reduced our net contribution by about two-thirds;

(iii) a wrangle over German demands to be exempted from full payment of their share of the United Kingdom's compensation led eventually to proposals from them and others for ad hoc compensation to the United Kingdom of 1,000 million ecu a year for five years with a system thereafter. The Germans failed to respond to your offer

to agree an ad hoc compensation of 1,000 million ecu for 1984, provided that the lasting Presidency system (which would have given compensation of 1,250 million ecu on 1983 figures) were agreed and operated from 1985;

(iv) in the end you were faced with a situation in which:

(a) instead of a lasting, equitable system for Community financing there should be a five-year ad hoc arrangement which would have left the United Kingdom receiving less than the average refund which we received in the years 1980 to 1983;

(b) the United Kingdom should endorse an unsatisfactory and discriminatory arrangement for milk;

(c) the United Kingdom should accept an increase in the Community's VAT resources to 1.4 per cent in 1986 and have in prospect a possible further increase two years later to 1.6 per cent.

This was clearly not acceptable.

(v) On milk the Irish demand was that their base quantity on which the superlevy would not be charged should be above the level of their 1983 production, while United Kingdom and other farmers took a cut. A number of member states rejected this. The agricultural issues now go back to the Agriculture Council on 26-27 March. It is probable that the French Presidency will seek an agreement with the Irish and that it will wish to vote through the whole agricultural package.

2. The Foreign and Commonwealth Secretary will also wish to comment both on the European Council and on the action which we might now take. It may be argued that the elements on which there was considerable agreement will tend to slip away, as member states' attitudes become even more rigid or hostile in coming weeks. If we are minded to try to consolidate the ground

achieved in Brussels and make a further effort to reach a satisfactory agreement during the French Presidency (the Irish have the chair next), it could be useful (particularly if we are also proceeding to withhold in respect of the blocked refunds) for the Foreign and Commonwealth Secretary very quickly to reiterate to his counterparts in other member states the points on which in our view agreement had almost been reached and which we could accept, with a view to some understanding on at least those points at the next Council of Ministers (Foreign Affairs), and the resumption of progress on the negotiations in the coming weeks. If we take no action, the alignment of all other member states against the United Kingdom will intensify.

3. You will also wish to ask the Cabinet's view on the question of withholding Community funds as a response to the blocking of our 1983 refund. A separate brief is provided.

4. The Transport Council will meet on 22 March, and the Agriculture Council on 26-27 March, followed by an informal meeting of Agriculture Ministers on 28-30 March. The European Parliament will be in session on 26-30 March.

approved by ROBERT ARMSTRONG
and signed in his absence.

Lindsay Wilkinson

21 March 1984



~~Proposed~~

Proposed solution for Ireland

Irish quota for 1984/5	4606	000 tms
Irish production in 1983	5280	
<u>∴ additional quota for 1984/5</u>	<u>674</u>	

Reserve of 600,000 tms
foreseen for

Italy	356 000 tms
Greece	25 000
	<hr/>
	381,000

∴ available for
Ireland (and
Northern Ireland) say, 200,000

∴ extra quota for Ireland 474,000

- ① Northern Ireland should get an additional 90,000
- ② Such a significant discrimination in favour of Ireland
only defensible if we have secured the best variable premium

Irish Solution

~~Proposed text~~
Proposed text

" An exception is made for Ireland on the following basis:

(i) Ireland is authorised in 1984 to maintain her production at the 1983 level. Any excess will be subject to the levy.

~~This~~ (ii) this derogation in no way prejudices the disposition which will be made in 1984 and 1985

(iii) the balance of the reserve will be ~~also~~ divided by the Commission on the quantities foreseen for 1984 "

Suggested counter-text

Ireland is authorised for 1984/5 to maintain her production at the 1983 level.

Any excess will be ~~of~~ subject to the levy. This derogation ~~will~~ in no way prejudges ^{any} the ~~the~~ dispositions which could be made ~~is~~ for 1985/6. An equivalent authorisation is accorded to Northern Ireland.

The quantities necessary to cover the above authorisation for Ireland + Northern Ireland will be found to the maximum extent possible from within the reserve of 600,000 tons.

The beef variable premium is maintained for the 1984/5 season