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PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the state of the negotiations on the reform of the Community's financing system and, in particular, on his meeting with Commissioners Davignon and Ortoli on 1 April. Commissioner Davignon has put to the United Kingdom a proposal which would confirm the reformed system set out in the Presidency's text and would be based on a United Kingdom refund of about 1,100 million ecu (1983 figures). More specifically, the Commission proposal would give:

- (a) a low basic limit for the United Kingdom expressed as a percentage of Gross Domestic Product (on 1983 figures this would be about 250 million ecu);
- (b) a "ticket modérateur" in two bands: on the first band we would get compensation of 77 per cent (contribution 23 per cent) and on the second band we would get compensation of 90 per cent (contribution 10 per cent).

We estimate that the United Kingdom would receive refunds, when the system was fully running (eg 1986-88) of between 60 and 64 per cent of our unadjusted net contribution, depending on the assumptions taken about the way in which Community expenditure and our unadjusted net contribution might develop. After sounding out the United Kingdom, Monsieur Davignon's intention is to try to persuade the French Presidency to take over the responsibility for selling the proposal to other member states. This would have to be completed before the Foreign Affairs Council next week (9-10 April). You discussed the attitude the United Kingdom might take to such a proposal with the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer today.



2. The Chancellor of the Exchequer may report on the Finance Council on 2 April. There was a technical discussion on budgetary imbalances. The French Presidency deliberately kept the discussion in a low key, in order not to affect any possible settlement next week. No member state showed any disposition to question the system. There was no substantive discussion of the figures, it being understood that, if this question was to be resolved, it would have to be done at or before the Foreign Affairs Council next week. On other matters the Council agreed to increase intra-Community duty free travel allowances to 280 ecu. After the Chancellor had underlined the United Kingdom's reservations about the proposals for European innovation loans, it was agreed that consideration should be given to a scheme without interest rate subsidies and, if no agreement were possible by June, the proposal would be shelved.

3. The Minister of Agriculture, Fisheries and Food will report that the Agriculture Council on 30-31 March agreed the 1984 farm price proposals and associated measures, including the introduction of the super levy on milk and arrangements for dismantling monetary compensatory amounts. The common support prices were reduced by about 1.5 per cent. In real terms, the price reduction over the Community as a whole is between 2 and 3 per cent. The United Kingdom made clear its reservation on the financial consequences of the settlement, inserting a formal statement in the minutes that in our view agricultural expenditure in 1984 must be accommodated within the existing budgetary provision. The Irish milk question was settled by giving the Republic of Ireland a basis of 1983 production levels plus 260,000 tonnes and an assurance of no decrease in future years; Northern Ireland was given an additional quota of 65,000 tonnes. The United Kingdom succeeded in retaining the beef variable premium scheme, though at a rate reduced from 10.7p per kilogram to about 8.7p, and subject to clawing back the premium on exports. United Kingdom livestock producers have criticised the settlement both because of the milk super levy and because of the claw back of the beef variable



premium on exports. At the end of the Council a further two-month rollover of the arrangements for importing New Zealand butter was agreed. The Irish blocked a longer period but there is some indication that they are reconsidering their position.

4. There was an informal meeting of Transport Ministers on 2 April, at which the Secretary of State for Transport represented the United Kingdom. Although this produced some agreement on minor matters, there are no issues requiring a report to Cabinet.

5. The Foreign Affairs Council will meet on 9-10 April and will confirm whether or not the outstanding questions on the reformed financing system have been resolved.

6. The Queen and President Mitterrand will attend the formal opening of the Joint European TORUS at Culham on 9 April.

approved by ROBERT ARMSTRONG
and signed in his absence.

4 April 1984

Lindsay Wilkinson