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RECORD OF A DISCUSSION AT A WORKING DINNER GIVEN BY THE PRIME MINISTER FOR THE PRESIDENT OF THE EUROPEAN COMMISSION AT 2030 HOURS ON THURSDAY 17 MARCH 1983 AT 10 DOWNING STREET

Present:

The Prime Minister	HE M. Gaston Thorn
The Foreign and Commonwealth Secretary	M. Emile Noel
Sir Michael Butler	M. Alexander Schaub
Mr. D. Hancock	
Mr. D. Hannay	
Mr. B. Unwin	
Mr. A.J. Coles	

The Prime Minister said that she had initiated a discussion of our budget problem in 1980 and had secured an agreement lasting for three years. The Community had then agreed to a three chapter mandate, all chapters of which would be implemented simultaneously. Some progress had been made last year on changes to the CAP and to economic and social policy but no progress had been made on reform of the budget. She had said in Dublin that the budgetary arrangements were inequitable. No progress had been made on a long term solution. We had been promised an arrangement for this year by last November. There had then been great controversy over the arrangement for the third year of the three year solution. This should never have occurred and she had been greatly upset by the proceedings. It was even more worrying that we were now in the third month of 1983 without any assurance as to a solution for this year. The assurances we had been given previously were worthless. We were now back to the situation we were in in 1980. She felt that she had been badly let down by all our partners. Germany and the United Kingdom were financing everybody else. We should have to turn this into a major issue. It was not our wish that it should become one but we had no choice. Both the long term and the interim problems must be solved and both must be discussed together. We could not wait beyond June. We did not wish to have to take the obvious step then.

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There was no difficulty about a long term solution based on a limit to net contributions. This was a simple and equitable concept. Nor was there any difficulty about an interim solution. The existing formula, based on a two-third net refund and a risk sharing formula could be extended. But it must last until a long term solution was achieved. It was up to the Commission to raise this matter and put forward proposals at the European Council next week. We would then expect a proposal for the long term and a proposal that the existing formula should be maintained for the interim period. Foreign Ministers must discuss the matter in April. There was great feeling about this question in the United Kingdom. We did not want it to become an election issue. The achievement of the Common Fisheries Policy, in which our own negotiators had played a large role, had removed one irritation. The remaining irritation - the budget problem - must be solved in the next two to three months. We should not be put in the false position of asking for money. We just could not afford to give what we were giving at present.

M. Thorn said that he would do all he could to avoid discussion of the kind that had occurred last year. But the decision of the European Parliament had changed the situation. We now had to find a long term solution. The Foreign and Commonwealth Secretary said that no-one other than ourselves talked about a long term solution before Parliament had taken this decision. Now they were beginning to do so.

M. Thorn said that it was necessary to discuss in the first place a long term solution. Before that discussion took place he could not achieve an interim solution. It must be recognised that the interim solution was designed for three years only. No other Government appeared prepared to follow that course now. The Prime Minister said that in that case they would have to take the consequences. M. Thorn advised the Prime Minister to make that plain to her colleagues at the European Council. The important question was whether there was a political readiness to discuss the matter. The Prime Minister commented that her partners had promised a solution by last November. There was little basis of trust between the members of the Community.

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M. Thorn said that on his recent round of capitals he had told everyone that something must be done for Britain. The Foreign and Commonwealth Secretary said that it was not a matter of doing something for Britain. The Prime Minister observed that the Commission was not showing sufficient seriousness about the problem. We should not pay too much attention to the European Parliament. M. Thorn said that he had raised the matter with President Mitterrand and had found an inadequate response. The Italians had been equally negative. M. Noel said that most Member States were prepared to take action in the long term with regard to the British problem. Mr. Pym said that they had signally failed to do so before the European Parliament decision. Now we were being asked to wait for a long term solution before we could have an interim one. But the politics of the British situation dictated that we could not wait. We had helped other Member States when they were in political difficulty and we expected others to help us. There must be an interim solution by June.

Sir Michael Butler said that there must be a thorough discussion at the Foreign Affairs Council in April. But Member States would say that they could not embark upon a discussion unless there was a Commission initiative. When the President of the Commission reported to the European Council on the discussion of the Green Paper he should make it quite clear that there was no prospect of a long term solution in 1983 or 1984 and say that there must therefore be an interim solution. If the Prime Minister were forced to make these points, then the reaction from President Mitterrand and others would be negative. The Commission and Chancellor Kohl should take the lead.

The Prime Minister said that we had been patient and reasonable but these tactics had not produced success. M. Thorn said that he would help us but our best ally would be Chancellor Kohl. He was the only Head of Government who had said, during the recent tour of capitals, that something must be done for Britain. The Prime Minister commented that that was because we had shown similar understanding to Chancellor Kohl in recent elections. The paper had to be put to the Foreign Affairs Council in April

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and it was for the Commission to do this. M. Thorn said that he must make his long term proposal first. The Prime Minister disagreed. The long term and the interim should be dealt with simultaneously. M. Thorn said that that meant action in May. He could not make a long term proposal until May. But he was ready to tell the European Council next week that no long term solution was available immediately and that therefore they should begin discussing the interim solution. He was bound by his promise to Parliament to put forward a paper on the long term solution in May.

The Foreign and Commonwealth Secretary asked what figure would be inserted in the Commission's budget for 1984. Nothing would be gained by postponing the discussion. The Prime Minister said that it was clear that the aim was to avoid giving us a refund this year. M. Thorn said that the United Kingdom would obtain its refund though at the moment he could not see how.

Mr. Hancock said that it was not likely that the European Parliament would reject the 1984 budget just because it contained one item for Britain. M. Schaub said that there was a danger of the Parliament dismissing the Commission. Sir Michael Butler said that the Parliament's decision was to be explained by the fact that they wished to assert themselves and insist on a long term solution. In a sense they were right to do so. But it was essential to arrive at an interim solution by May so that a figure could appear in the 1984 budget as a routine item. Mr. Unwin said that there could surely be no objection to the Commission putting forward a proposal before May. Parliament wanted accelerated action. Mr. Hancock observed that M. Thorn had said that every government wanted a lasting solution. The Council's discussions should reveal this next week and that should be an encouragement to Parliament. M. Thorn said that at a meeting of the Commission next week there would be some discussion of an interim solution. But it was not at all clear when he would have a majority in the Commission for endorsement of a proposal.

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Sir Michael Butler said that the aim at the European Council should be a conclusion envisaging a settlement of the interim problem at the May Foreign Affairs Council. It would be necessary for the Commission to put forward a reference figure and a suggestion for a risk sharing formula after the April Council.

The Foreign and Commonwealth Secretary said that he was surprised by M. Thorn's reference to the absence of a majority in the Commission for a solution for the British problem. M. Thorn said that there would be no majority before a long term solution was in evidence. The Prime Minister commented that it was extraordinary that even Commissioner Tugendhat did not seem to be supporting our cause. M. Thorn said that Mr. Tugendhat was indeed fighting for the United Kingdom.

The Foreign and Commonwealth Secretary asked why the Commission could not put forward a paper on the long term solution now. Sir Michael Butler asked whether the Commission could not accelerate its timetable and produce a long term proposal by April. The Prime Minister said that in spite of the difficulties there had to be a solution by June. Otherwise she would have to take action and she did not wish to do this. By June we would be half way through the year. We had to be assured that a refund would be available this year. M. Noel said that there was no chance of a decision in June and the action threatened would not help to produce a solution. The Prime Minister said that we had been reasonable for too long. Following the 1980 agreement there should have been no problem about the 1982 refund and it was disgraceful that the Commission was not more critical of the proceedings during that year. Sir Michael Butler said that the Commission would find it no easier to obtain a solution later. They might as well work for one in May. If we missed the opportunity to incorporate a solution in the 1984 EC budget, the situation would deteriorate. M. Thorn said that there was sufficient provision in the budget to cover the British problem. The Prime Minister said that she now saw the situation more vividly. No-one was even thinking of inserting a reasonable figure in the budget. M. Thorn said that in at least half of the capitals of Member States people were questioning the overpayment which we had received.

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Sir Michael Butler said that it was essential for M. Thorn to give a lead in the Council discussions on Monday. He should stress the need for an interim solution until a long term solution was agreed. He should point out that there was a possibility of settlement in June. If Chancellor Kohl took up this theme, it could be reflected in the conclusions of the Council. M. Thorn commented that this would depend on other governments being willing to make firm commitments. Then it would be necessary to work on the Parliament to demonstrate the need for an interim solution. Sir Michael Butler said that anxiety about the Parliament attitude could be exaggerated. Provided the discussion of the long term solution had been launched, there should not be great difficulty.

M. Thorn said he accepted that it was his duty to point to the UK budget problem. But he hoped that others would not remain silent. The Prime Minister said that if the Commission inserted in the budget a figure for our unadjusted net contribution, that contribution would not reach Brussels and it would be unreasonable for anyone to expect it to.

The discussion ended at 1030.

17 March 1983

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10 DOWNING STREET

From the Private Secretary

17 March 1983

Visit of the President of the EC Commission

M. Thorn attended a working dinner given by the Prime Minister here this evening. There was a good deal of general conversation before dinner, mostly about the prospects for the European Council. The substantive part of the discussion during dinner concerned the UK budget problem. I enclose a record of the discussion on this question.

I am copying this letter and enclosure to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

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