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MR WALL

c Mr Hadley

European Parliament

- attached

Your account of the Prime Minister's conversation of 10 November with Chancellor Kohl sparked a thought which might in certain circumstances be useful further on in the EPU negotiation. I apologise for invading territory not strictly mine.

2. Though it has not surfaced for some time, I think the idea which was floating round the Chancellery a few months ago of a staged development of the powers of the Parliament, linked in some way to the stages of the EMU treaty, may come up again. It would be one of the easiest ways for Kohl, having so unambiguously nailed his colours to the EP mast, to accept relatively little now while not wholly losing credibility domestically. This could in turn mean that in the end game, the UK found itself being invited to sign a more or less blank cheque which the EP with the help of its friends could cash later. Kohl seems to have bought the thesis that the way to make the EP more responsible is to give them the duty (and thus the burden) of taxing powers. This could well be the development held out to coincide with Stage III of EMU.

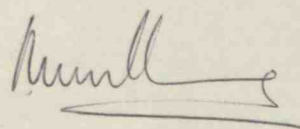
3. That could be pretty awkward for us. We would of course seek to dilute any commitments. One way of making them less damaging to the UK would be to add our own long standing agenda item as a prior condition to further changes in the constitutional balance: reform of the

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Community's finances such that the burdensharing became genuinely equitable and the petits riches were finally caught in the net.

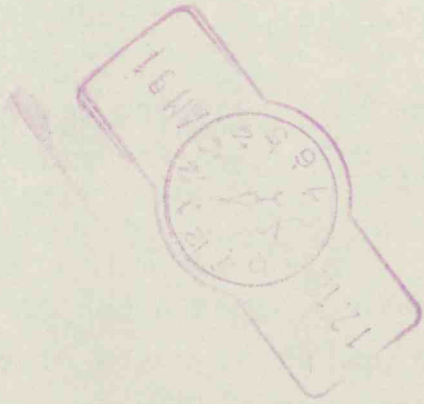
4. It may be objected that this would open a can of worms and be a high risk course for the UK. I am aware of this. But our present special deal is not sustainable for ever and our only hope over the longer term is a reformed financial system (involving I would imagine ex post facto corrective financial transfers). It would be quite hard for opponents to argue that such a "fairness" condition attached to further alterations in the European constitution was irrelevant. Moreover, it would have two advantages: at worst it would be a show shopper. At best it could bring a real benefit to the UK as well as providing a sounder financial base for the present - and future enlarged - Community.



Miss L P Neville-Jones

Cabinet Office
11 November 1991

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from: BRIAN BENDER
12 November 1991

MR WALL

cc Miss Neville-Jones
Mr Hadley (or)

EUROPEAN PARLIAMENT

WITH JSW'S

I feel bound to put in a strong warning note about the idea in Miss Neville-Jones' minute of 11 November of throwing into the IGC negotiating ring our longstanding concerns about budgetary imbalances. I do this for two reasons:

- i The Spaniards have, as you know, argued in the IGCs that they have a particular problem of budgetary imbalance which must be corrected; and they have put forward various ideas (including for an inter-State compensation fund) to this end. We - and other Northerners - have countered by arguing that these IGCs are not the occasion for talking about money; that will be for the 1992 financing review. We cannot be certain how Gonzalez will play this at Maastricht, but must hope that he will be persuaded to settle for a declaration - which is as non-committal as possible - about looking at various issues in the financing review. It would be a serious own goal for the UK now to refer to its concerns on budgetary balances in the political union IGC. Moreover, others would not understand why we had raised the matter so close to Maastricht, and could well regard it as a wrecking tactic.
 - ii As Miss Neville-Jones says, it would be a high risk course for the UK to open this particular can of worms at any stage. The present official level advice from Treasury, FCO, UKRep and Cabinet Office is that in next year's financing review we should keep our heads down on the question of the UK abatement arrangements (on the grounds of "what we have we hold") rather than seek an improvement in them as part of our initial negotiating position.
2. EQS will be looking at our tactics on the UK abatement and other aspects of the financing review in due course and there will no doubt be subsequent Ministerial correspondence or, if necessary, collective discussion before the negotiations get under way. The possibility of reforming the EC's finances in the way Miss Neville-Jones suggests could be fed into those discussions.


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