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PREM 19/1229

The Community Budget.

Developments in the European
Community.

EUROPEAN

POLICY

PE1: MAY 79
PE25: JUNE 84

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.6.84							
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4.7.84							
28.6.84							
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PREM 19/1229

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● PART 25 ends:-

CP to FCO 28.6.84 .

PART 26 begins:-

HMT to CP 3.7.84 .

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bc: PC

10 DOWNING STREET

From the Private Secretary

28 June 1984

1982 RISK SHARING REFUND

I wrote to you on this subject on 21 June.

I should record that, at the briefing meeting following conclusion of the European Council at Fontainebleau, the Prime Minister said that the agreement reached that in future the correction of our budgetary contribution would be on a payments basis was an important gain and worth more than the sum outstanding on the 1982 risk sharing refund. We should not put our gain at risk by continuing to pursue the outstanding amount on the 1982 refund. Anyway there seemed little chance that our claim would succeed.

I am sending copies of this letter to the Private Secretaries of the members of OD(E), to Richard Stoate (Lord Chancellor's Office), Henry Steel (Attorney General and Solicitor General's Office), Iain Jack (Lord Advocate's Department) and to Richard Hatfield (Cabinet Office).

C.D. Powell

Roger Bone, Esq.,
Foreign and Commonwealth Office.

50

Ref. A084/1849

PRIME MINISTER

Cabinet: Community Affairs

You will wish to inform Cabinet of the results of the European Council at Fontainebleau on 25-26 June which at last reached agreement about the reform of the Community's financing system and the United Kingdom refunds. You may wish to stress the key points that:

- i. the new system, which is linked with the increase in own resources, will be durable: unless the United Kingdom itself agrees to change it, the new system will continue to our benefit;
 - ii. the combined effect of the new system of refunds and the increase of 1.4 per cent in the VAT ceiling is that the United Kingdom will be contributing less than 1 per cent of VAT. In the absence of an agreement we would have been contributing 1 per cent.
2. In particular:
- i. the agreement on budgetary imbalances provides a lump sum payment to the United Kingdom of 1,000 million ecu net for 1984 (about £600 million) with the system thereafter giving refunds for the United Kingdom at a rate of 66 per cent of the VAT share/expenditure share gap, calculated, as we would wish, on the payments basis. The refunds in 1985 and later years will be substantially higher than in 1983 and 1984. By comparison with the 750 million ecu refund for 1983 and the disagreed position on 1,000 - 1,250 million ecu at the Brussels European Council, the new arrangement would give a refund for the United Kingdom of nearly 1,080 million ecu on 1983 figures, and significantly higher figures in 1985 and later years. The system will last as long as the decision to enlarge

the Community's own resources by increasing the VAT ceiling from its present 1 per cent to 1.4 per cent from 1 January 1986, and can only be changed by unanimity. The Germans will pay two-thirds of their normal share of United Kingdom reliefs;

ii. in securing this agreement, you successfully resisted pressure from other member states for two ad hoc years and for a less satisfactory system which would have given the United Kingdom only a partial relief of the VAT/expenditure gap added to a fixed sum. You also pushed other member states up substantially from their original refund figures of 55 or 60 per cent and eliminated proposals which would have had the effect of making us contribute to any German refunds or to transitional "own resources" relief for Spain and Portugal at our full rate;

iii. it was also agreed that measures should be taken at the next Budget Council to balance the 1984 Budget and to complete the implementation of the provisional agreement on budgetary discipline;

iv. the Foreign Affairs Council has now adopted the three regulations necessary to unblock our 1983 refunds of 750 million ecu (£440 million). It is now for the European Parliament to transfer the money from the reserve chapter of the budget;

v. the United Kingdom achieved its main objectives on the budget inequity, securing a satisfactory relief on our unadjusted net contribution, a durable system with effect from the refund for 1985 (with only one more year of arbitrary relief) and the release of our 1983 refund. Subject to the satisfactory completion of the work on budgetary discipline and the 1984 budget overrun, we have also achieved our objectives in these areas;

vi. the Germans, while obviously unclear about their main objectives, achieved a modification of the application to them of the system and an increase in VAT relief for

German farmers from 3 per cent to 5 per cent from 1 July so that they can pay from their national budget more compensation for dismantling the monetary compensatory amounts;

vii. President Mitterrand will have the satisfaction of having presided over a successful European Council. He will no doubt emphasise also the other matters discussed there, in particular the establishment of an ad hoc group of representatives of Heads of State and Government to examine a list of topics designed to benefit the "citizens of Europe", including the introduction of the common passport from 1 January 1985, and the introduction by 1 April 1985 of a single customs document for the transport of goods, the abolition of frontier controls for individual travellers and a system of equivalence of university awards. A further ad hoc group will consider institutional questions to improve the operation of the Community;

viii. the European Council confirmed the objective of completing the enlargement negotiations with Spain and Portugal by 30 September 1984;

ix. much detailed work has now to be done, not just by the Budget Council, but by officials to ensure that the European Council's decisions are turned into texts, including the amendment of the Own Resources Decision.

3. The Environment Council meets on 28 June and the Research Council on 29 June.



ROBERT ARMSTRONG

27 June 1984

BUDGET SETTLEMENT : BULL POINTS

- I) This agreement means that since 1979 this Government will have secured £3,000 million in refunds from the Community. That means we have contributed £3,000 million less than if Labour's arrangements had still been in effect.
- II) Despite the increase in the general VAT ceiling to 1.4% the new system will mean that our net contributions to the Community will be less in real terms than they would be under the existing 1% VAT ceiling.
- III) We confidently expect our contribution to fall in real terms under the new arrangement.
- IV) Under the new system Britain will be contributing not 21% of new Community expenditure but 7%.
- V) The increase in the VAT ceiling to 1.4% is necessary to allow others to pay more so that we can have our refunds and pay less.
- VI) The new arrangement is far better than any deal previously on offer to this country.
- VII) The new system is durable. It can be changed only by unanimous decision by the member Governments and national Parliaments.

BUDGET DEAL GIVES US LESS THAN WE COULD HAVE GOT AT BRUSSELS

This is a much better deal than anything available in Brussels. We have secured a lasting system which can only be changed by unanimous agreement of Member States. We have secured only one more ad hoc year: at Brussels we were offered between two and five more ad hoc years. We have also secured a rate of compensation which is better than anything which was on offer in March.

RELIEFS NOT AS GOOD AS AVAILABLE UNDER PREVIOUS REFUNDS

Previous refunds had to be negotiated each year. This was becoming increasingly difficult as we saw over our 1983 refunds. Moreover, the level of ad hoc payments had been degressive (£783 million in 1981; £491 million in 1982; £440 million in 1983). Under this agreement we secure release of our 1983 refunds (£440 million); a guaranteed refund for 1984 (£600 million) and an automatic system of reliefs for 1985 onwards. This new system can only be changed with our agreement. It will give us automatic payment of reliefs on the revenue side and on the payments basis which is of great importance to this country. It gives us a firm assurance of reliefs at a constant rate for the future.

WHY HAVE YOU GIVEN UP THE SYSTEM?

No question of our giving up the system. We have secured all the essential elements which we sought, namely, a lasting system embodied in the own resources, that can only be changed with our agreement; payment of reliefs on the revenue side of the budget; a fair sharing of budget burdens based on our ability to pay.

WILL THE OTHER MEMBER STATES BENEFIT?

The agreed text provides that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time. The system will apply to the United Kingdom only at this stage. The FRG will contribute to our reliefs at two thirds of her normal financing share. The UK will of course not contribute to this abatement of the German contribution.

INCREASE IN OWN RESOURCES TOO HIGH A PRICE FOR REFUNDS?

We have agreed to increase in own resources in order to enable the Community to develop new policies of benefit to Britain; to allow for an increase in real terms in the Regional and Social funds from which we benefit; and so as to complete the negotiations for Spanish and Portuguese membership which are in the vital interests of the NATO alliance and of Western democracy. At the same time, the UK will be paying about half, even with an increase in own resources, what it would have paid with no increase and no agreement. We shall go on paying at less than 1% of VAT while other Member States pay more. Over the period 1983-88 our adjusted net contribution will fall in real terms.

UK NONETHELESS REMAINS LARGE NET CONTRIBUTOR

The Federal Republic of Germany will remain the largest net contributor and will be bearing a greater share of the burden through its contribution to our reliefs. As a result of enlargement and increase in own resources, France will also become a substantial net contributor. Britain will remain a net contributor but at a much lower rate than if there had been no agreement. The UK's contribution to new Community expenditure will now be less than 7%, compared with our normal VAT share of about 21%. Other Member States, who will be contributing to our reliefs, will be getting lower receipts from the Community budget than in the past.

[* UK adjusted net contribution in 1983 = £683m
1984 = £631m
1985 = £588m]

ARE NOT LEVIES AND DUTIES ON IMPORTS FROM OUTSIDE
THE COMMUNITY EXCLUDED?

Not at all. The basis of correction which has been agreed covers the great bulk of our payments to the Community since what the VAT share/expenditure share gap means is that our levies and duties are counted as if they were paid at the VAT rate, ie just over 21% of the Community budget. On 1983 figures, our "excess" levies and duties on this definition amounted to 291 mecu on a total gap of 1913 mecu. Over the last few years the figure has fallen in real terms.

WHY NOT MAKE SAVINGS INSTEAD?

Savings are being made, as this year's agricultural price settlement showed. In addition, the Community has now agreed on the need to set annually a total favourable expenditure. This will apply to all Community spending and will ensure that agriculture takes a diminishing, not a growing share of the Community budget.

WHY 1.4%?

A 1.4% VAT ceiling is consistent with the necessary cost of enlargement, modest real growth of the structural funds and limited growth of new policies.

WHEN WILL NEW CEILING BE REACHED?

With effective budget discipline we expect the new ceiling to be sufficient for the Community's foreseeable needs.

FURTHER INCREASE AGREED TO 1.6%

A number of Member States wanted a further increase in 1988, to 1.6%. Under the agreement reached, there can be no further increase without the unanimous agreement of Member States and the approval of national parliaments.

WHEN WILL PARLIAMENT DEBATE INCREASE IN OWN RESOURCES?

The next step is for detailed legal texts implementing the agreement reached at Fontainebleau to be drawn up. The procedure will be:

- (a) the Commission will submit a proposal for a decision to the Council of Ministers which, in the UK, will be subject to Parliamentary Scrutiny in the usual way;
- (b) that decision can only be adopted by unanimity in the Council of Ministers. It would then be recommended for adoption by the Member States in accordance with their respective constitutional requirements;
- (c) in the case of the UK, the Government would lay a draft Order in Council under Section 1(3) of the European Communities Act 1972. This would require the approval of both Houses of Parliament;
- (d) if approved by Parliament, the Section 1(3) Order would be submitted to the Privy Council;
- (e) following Privy Council enactment, the Secretary General of the Council of Ministers would be informed of the completion of the UK constitutional procedures.

WHAT ABOUT 1983 REFUNDS?

They were blocked by two Member States pending resolution of the budget negotiations. These two countries have now lifted their reserve as we anticipated and contrary to the dismal predictions of the opposition, doubtless based on their lamentable performance when in government.

EUROPEAN PARLIAMENT COULD STILL BLOCK

The Parliament has to approve the transfer of the refunds. The Commission will not institute the necessary request so that the refunds can be paid.

WHAT ABOUT 1982 REFUNDS

This disagreement was of a quite different order than the 1983 refunds. There was no dispute about our basic refund, all of which has been paid but, about a small element of the so called risk sharing payment. The disagreement arose over the calculation of the amount due. We have now secured, for the future, the payments basis as the method of calculation. This is of great value to us since it will enable the full amount of our refund to be deducted forthwith under the system. In the light of this agreement, we have decided not to pursue the argument with the Budget Council about the residual risk sharing element from 1982.

BUDGET DISCIPLINE

NOW YOU HAVE AGREED NEW OWN RESOURCES WON'T THE COMMUNITY CARRY ON OVERSPENDING?

We shall continue to press for savings and deferment of expenditure instead of raising new funds as proposed by the Commission.

For the future, under the new arrangement for budget discipline, agriculture is to take a diminishing share of the Community budget while all Community spending is subject to an annually agreed maximum. The agreement on own resources will only be ratified when the measures necessary to guarantee the effective application of the principles agreed have been adopted. Finance Ministers have been asked to complete this work.

BUT THE 1985 PDB PROVIDES FOR AGRICULTURE TO TAKE AN EVEN LARGER SHARE OF THE CAKE

So far, we only have the Commission's proposals. The budget must conform to the own resources ceiling. The Commission's proposals for the 1985 budget year must therefore be revised so as to comply with the legal provisions of the Treaty of Rome.

IF SAVINGS CANNOT BE FOUND, WILL THE GOVERNMENT AGREE TO A LOAN OR TO ADVANCES?

No adequate case can be made for a loan just half way into the budget year. The immediate need is to identify and make savings, and to defer expenditure. This issue will be considered by the Budget Council in July. Heads of Government agreed that steps should be taken to ensure that the 1984 budget was in balance. We have already put forward proposals for savings to achieve this goal.

NEW COMMUNITY POLICIES

WHAT DID EC HEADS OF GOVERNMENT AGREE AT FONTAINEBLEAU?

Heads of Government reaffirmed their commitment to a number of objectives including:

- development of Europe's scientific and technological potential
- strengthening of the internal market

To achieve these objectives there is a need for:

- a framework programme for telecommunications and biotechnology
- increased effort in research and development
- measures to simplify trade and customs formalities
- harmonisation of standards and products
- liberalisation of trade in services, notably transport and insurance

UK PAPER ON FUTURE OF EUROPE

I have today placed in the library of the House the paper on the future development of the Community which I sent to Heads of Government before the European Council. It sets out practical ideas for a more effective Community - through completion of the common market for goods and services; collaborative action where this can achieve better results than national action alone; through a more prominent international role for the Community and through a number of ideas for institutional and organisational changes.

WILL THE UK AGREE TO A NEW TREATY ON EUROPEAN UNION?

The Community should concentrate on implementing the existing Treaties before we start drafting new ones. We all agreed at Fontainebleau to consider practical steps towards improving European cooperation.

COMMUNITY HAS AGREED TO GIMMICKS SUCH AS FLAG,
FOOTBALL TEAM, ETC.

A number of ideas have been put forward and will be discussed by representatives of Heads of Government. Our aim is to make the Community more relevant to the lives of its citizens and to work towards greater unity by practical means. If honourable Gentlemen would take the trouble to read the paper which I have placed in the library of the House they will see that all the suggestions in it are sensible, practical and of real value to this country and to the Community as a whole.

COMMON FORMAT PASSPORT

UK PLANS FOR THE COMMON FORMAT PASSPORT?

My right honourable Friend the Home Secretary expects to make a statement about the Government's intentions shortly.

RECOMMENDATION ON WORKING TIME

WHY HAS THE UK REJECTED THE PROPOSED RECOMMENDATION ON WORKING TIME?

A reduction in working time is not the way to create more jobs. The biggest cause of lost jobs has been falling competitiveness in the Community in relation to the rest of the world. Our top priority must be to improve competitiveness. This recommendation works against that aim, and by risking damage to competitiveness could make the employment situation worse.

Prime Minister

BUDGET IMBALANCES

1. I have just returned from lunch with M Attali.
2. He asked what we thought about the proposals circulated by M Dumas. I said, with some firmness, that we did not think that they were a basis on which this problem could be resolved. We should start from the system put forward by the Presidency at Brussels. There should not be more than one ad hoc year: at this point I reminded him that 1983 had already been an ad hoc year, and his reply was to the effect that the President thought that the system should start with the enlargement of the Community in 1986. I said that I thought that you would wish to propose a threshold with a percentage beyond that. He asked what we would think of a straight percentage; I said that I could not exclude the possibility of a straight percentage, provided the figure was right.
3. M Attali said that the percentage figure implied by the Dumas proposal was 55%. He understood that we were at 70%. I said that Sir Geoffrey Howe had made it clear to M Dumas that we were looking for a figure of something over 70% on the more limited gap. M Attali said that the President's upper limit was two-thirds ($66\frac{2}{3}\%$).
4. I asked how the President proposed to take this matter. M Attali said that he thought that the President would open the discussion by saying that there appeared to be five proposals on the table:
 - i) Chancellor Kohl's proposal;
 - ii) M Thorn's proposal;
 - iii) A British proposal for the Presidency system starting from a 1983 figure of 1125 mecu;

- iv) an alternative British proposal for the Presidency system with a straight percentage of 70%; and
- v) the Dumas proposal.

5. In subsequent discussion, M Attali tacitly abandoned the Dumas proposal, and seemed to assume that agreement would focus round the system and a straight percentage. He said that, if Heads of State or Government could agree upon that as a matter of principle before dinner, the President was likely to propose that Foreign Ministers should continue the discussion over dinner with a view to reaching agreement on the figure and reporting to Heads of State or Government by the end of this evening. M Attali said that the President wanted this matter out of the way today, so that it was clear before tomorrow's discussion.

6. M Attali said that the President would be very reluctant to talk in terms of a 1983 reference figure: he said that any such figure would be "a red rag to the bull". It would be much better to talk in terms of percentages.

7. I came to the conclusion by the end of the talk that the President would settle for the system and a straight percentage, and was ready to go to $66\frac{2}{3}\%$. The problem will be to get him above that figure.

RTA

Sir Robert Armstrong

cc: Mr Butler
[REDACTED]
Mr Bone
Sir J Bullard
Sir M Butler
Mr Williamson
Sir C Tickell
Mr Renwick
[REDACTED]

FROM: R W Renwick

DATE: 25 June 1984

cc: Sir Robert Armstrong
Sir Michael Butler
Sir Crispin Tickell
Mr Williamson
Mr Unwin

Private Secretary

BUDGET IMBALANCES

1. Mr Williamson and I saw Legras at lunch-time. We said how annoyed we had been to receive the proposal in M. Dumas' letter to the Secretary of State yesterday. This was completely unacceptable, as well as misrepresenting our position; and no negotiations would be engaged on that basis.

2. Legras agreed that this proposal was absurd. He has asked Dumas again this morning to argue against its being put forward at all. Dumas would be continuing to try to achieve a result on the basis of a percentage return, incorporating most of the elements of the Presidency system.

3. We made clear that the Prime Minister intended to negotiate on the basis of the system in the Presidency text. Legras produced a draft text which he was not authorised to show us, but which would represent the draft conclusions on the basis of a percentage return. The gist is set out in the attached note. We made clear that we would not agree to a second ad hoc year.

4. We said again that our intention was to complete the negotiations by setting the notional figure and the threshold.

/AS

As for the percentage route, apart from the hazards of changing the basis of negotiation at this stage, the figures so far mentioned by the French were inadequate. Legras indicated that the French, nevertheless, were likely to proceed on this basis. If they did, they might start with some absurdly low figure in the region of 60%, but would then go up some way from there (presumably to two thirds of the VAT/expenditure gap).

5. The attached draft text retains the following essential features of the Presidency text: incorporation of the correction mechanism in the own resources decision; the correction to be co-terminos with the own resources decision and related to relative prosperity; and the correction to operate on the revenue side. In other respects, however, there is a lot wrong with it. If discussion were engaged on this basis it would have to be amended:

- (a) to include 'on a payments basis' in paragraph 3
- (b) to delete the reference to a second ad hoc year in 1985 (paragraph 5)
- (c) to delete the last sentence of paragraph 5
- (d) delete paragraph 6
- (e) delete or amend the second sentence of paragraph 8.*

R W Renwick

R W Renwick

*(f) instruct the General Affairs Council to draft an implementing text.

MESSAGE DE MONSIEUR ROLAND DUMAS
MINISTRE DES AFFAIRES EUROPEENNES

A

THE RT. HON. SIR GEOFFREY HOWE, QC, MP,
SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

Paris, le 24 juin 1984

"Cher Geoffrey,

1) Vous vous souviendrez qu'à la fin du dernier Conseil Européen deux propositions avaient été faites :

- la proposition du Chancelier Kohl : 1 milliard d'écus par an pendant cinq ans. Cette proposition a été renouvelée et a reçu le soutien de plusieurs partenaires.

Madame Thatcher s'en est tenue à la proposition suivante : 1 milliard d'écus en 1984, démarrage du système en 1985 à 1250 sur la base des chiffres 1983.

.../...

2) Lors des discussions que nous avons eues ensemble, notamment à Luxembourg, vous m'avez indiqué que vous seriez prêt à envisager l'une des deux formules suivantes :

- soit 1 000 en 1984 et démarrage du système en 1985 à 1125 mécus sur la base des chiffres 1983,

- soit un système simplifié sans franchise, avec un taux de correction de 70 pour cent de l'écart TVA/retours.

Vous m'avez confirmé cette position dès vendredi.

3) Ces propositions sont éloignées, aussi la Présidence (après en avoir débattu avec les autres Etats-membres) fera demain à Fontainebleau la proposition à titre transactionnel :

1984 : 1000 mécus (forfait)

1985 : 1080 mécus (forfait)

1986 : 1080 mécus, somme à laquelle s'ajoutera 60 pour cent de l'accroissement du déficit 1986 (écart TVA/retours) par rapport au déficit 85 (écart TVA/retours).

Cette proposition ainsi mise en place répondrait aux vœux de certains partenaires (forfait)

.../...

et aux désirs britanniques (un système durable et proportionné à l'évolution du déficit).

Avec mes meilleurs sentiments.

signé : Roland Dumas"./. .

Prime Minister (2)

C.D.P.
22/6

EC BUDGET: TELEPHONE CONVERSATION WITH DUMAS: 22 JUNE

1. The Secretary of State telephoned Dumas this morning. He said that we were grateful for President Mitterrand's letter. We were in general agreement with the approach it contained (Dumas intervened to apologise for the fact that the text had evidently been made available to Reuters in Brussels). The Secretary of State said that we hoped to discuss the budgetary problem on the first day, in order to work towards a settlement. Dumas agreed, but commented that it might not be right to start directly with that problem. The Secretary of State said that we would ourselves expect an early reference to the budgetary problem in plenary session perhaps soon after lunch on Monday, perhaps on the understanding that there would then be further discussion away from plenary.

2. On substance, the Secretary of State said that people had been talking to us of a French proposal, to which the Presidency were apparently awaiting a UK reaction. He thought that the UK position had been made very clear in his discussions with Dumas at Luxembourg. We continued to believe that the negotiation could and should be completed on the basis of the Presidency Brussels text. The UK could not agree to further ad hoc years after 1984. If the negotiation were to be moved on to a different basis, ie on to a proportionate basis, the UK would require a higher rate of return than that so far suggested by the French. The other point was that it was not at all clear how the German problem would be dealt with on that different basis. Dumas intervened to say that he thought the FRG problem was "more or less in the future". The Secretary of State said that he thought it important to be clear about the FRG problem in the budgetary context. He thought that the UK approach, in the terms that he had just described it, had been made clear to Dumas. This was the basis on which the UK wished to move to a solution. We believed that agreement should be possible, which would then permit the re-launch of the Community. He asked whether Dumas had any thoughts on further steps?

3. Dumas said that, as we knew, he had been in touch with other delegations at Luxembourg, and it was clear that the Benelux countries and the FRG, and indeed the remainder of the Nine, were not disposed to move very much from their well known positions. Dumas said that, in his judgement, there was no possibility of agreement on the basis of what the Secretary of State had said on Tuesday. He asked whether the Secretary of State was suggesting a further meeting before the first plenary session at Fontainebleau. Was the Secretary of State proposing to arrive earlier? The Secretary of State said that he could do so. Dumas said that it depended on us. The

/Secretary

Secretary of State said that there was nothing of substance that he could add to what he had said to Dumas on Tuesday. Dumas said that he had had the impression that perhaps we would be able to look at something slightly different from the Brussels text, and dispensing with the idea of a threshold. The Secretary of State went over the ground again, emphasising that if the negotiation were to be moved on to a different basis, the UK would require a higher percentage rate of return than that so far suggested. He confirmed, in answer to Dumas' question about the rate of return, that it would have to be higher than 70%. Dumas commented that that would not be possible.

4. Dumas said that there were two main points of difference. On the question of ad hoc years, it was clear that the Nine would like two years, though perhaps the figure for the second year would not necessarily be the same. Secondly, for the period after 1986, a system would be acceptable. The FRG had wanted four more ad hoc years, but it now seemed that they might accept two years and then a system. As he, Dumas, had explained to the Secretary of State, the Presidency had been thinking about the advantages of a straight percentage basis. The Secretary of State repeated that we thought the system in the Presidency text as tabled at Brussels was, in our judgement, the best basis, and again said that if the negotiation were to be moved to a different basis, the UK would require a higher rate of return than that so far suggested. He did not want the Presidency to be in any doubt of our position.

5. Dumas suggested that the Secretary of State might consider getting in touch with him on arrival in Fontainebleau.

22 June 1984

R.B.B
FCO/Private Office

Distribution:

Mr Williamson
Cabinet Office

Mr Powell
No 10

PS
PS/Mr Rifkind
PS/PUS
Sir C Tickell
Mr Renwick
Mr Fairweather
Mr Wall

Sir M Butler
UKREP BRUSSELS

FRAME ECONOMIC

FM BONN 221430Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 626 OF 22 JUNE

INFO ROUTINE PARIS UKREP BRUSSELS

INFO SAVING OTHER EC POSTS

GERMAN APPROACH TO FONTAINEBLEAU

1. AT THE FEDERAL GOVERNMENT PRESS CONFERENCE TODAY THE DEPUTY GOVERNMENT SPOKESMAN, SUDHOFF, SAID THE FEDERAL GOVERNMENT WANTED A FAIR AND LASTING SOLUTION TO THE PROBLEM OF BRITISH NET CONTRIBUTIONS. THE STARTING POINT WAS THE BRUSSELS EUROPEAN COUNCIL OFFER OF A LUMP SUM FOLLOWED BY A SYSTEM. ALL MEMBER STATES WERE READY TO TAKE A LAST STEP TOWARDS ONE ANOTHER. IN RESPONSE TO A QUESTION HE SAID THE EC'S OFFER TO BRITAIN (SIC) WAS A FIXED 1000 MECU FOR TWO YEARS WITH A SYSTEM FOR THE YEARS FOLLOWING.

2. HE WENT ON TO SAY THAT ANOTHER SERIOUS FINANCIAL PROBLEM WAS HOW TO FILL THE 2.33 BILLION ECU GAP IN THE BUDGET. THE FEDERAL GOVERNMENT DID NOT THINK LOANS BY MEMBER STATES WERE FEASIBLE. THEY FAVOURED REALLOCATIONS AND SAVINGS WITHIN THE BUDGET WITH THE REST TO BE MET FROM CONTRIBUTIONS BY MEMBER STATES ON THE BASIS OF AN AGREEMENT BETWEEN MEMBER STATES.

3. SUDHOFF REFUSED TO SPECULATE ON POSSIBLE LINKAGE BETWEEN VAT COMPENSATION FOR FARMERS AND BUDGET QUESTIONS. THE FEDERAL CHANCELLOR WOULD SEEK MEMBER STATES' UNDERSTANDING, GERMAN FARMERS BEING HARDER HIT THAN OTHERS ESPECIALLY BY REDUCED MILK PRODUCTION AND DISMANTLEMENT OF MCAS.

4. SUDHOFF COULD NOT SAY WHETHER THE COUNCIL WOULD DECIDE ON A SUCCESSOR TO THORN. BUT THE SUBJECT SHOULD BE DISCUSSED. HE CONFIRMED THAT THE GERMANS WERE INTERESTED IN THE POST, WOULD NAME NO NAMES, BUT SAID THAT GENSCHER HAD NEVER BEEN CONSIDERED AS A CANDIDATE.

FCO PLEASE PASS SAVINGS AND ADVANCES:

WILLIAMSON, DURIE, CABINET OFFICE

UNWIN, FITCHEW, TREASURY

TICKELL, RENWICK, FAIRWEATHER, FCO

ANDREWS, ATTRIDGE, RAFF

MALLABY

RESTRICTED

MJ

cc Sir P Eradock

22 June 1984

Europe - the Future

The Prime Minister agrees that the Foreign and Commonwealth Secretary should arrange for a copy of the paper "Europe - the Future" to be placed in the library of the House on 27 June. You will wish to consider whether she should refer to this in her statement on the European Council that day rather than announcing it through an answer to a PQ as proposed in your letter of 20 June.

CP

Roger Bone Esq
Foreign and Commonwealth Office.

RESTRICTED

869

SUBJECT

cc Master.

CONFIDENTIAL



cc WPO
HWT
CO
bc P.C.

10 DOWNING STREET

From the Private Secretary

22 June 1984

Dear Roger,

EUROPEAN COUNCIL: BUDGET IMBALANCES

The Prime Minister held a meeting yesterday with the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer in order to prepare the United Kingdom negotiating position on the budget inequity and United Kingdom refunds for the European Council on 25-26 June. Sir Robert Armstrong, Sir Michael Butler and Mr. Williamson were also present. The European Secretariat of the Cabinet Office had circulated on 14 June a paper summarising the state of the negotiation.

The Prime Minister said that we should seek to obtain in the European Council at Fontainebleau on 25-26 June an agreement on the system for correcting the budget inequity which would be as close as possible to that set out in the Presidency text which had been tabled at the last European Council. We should accept no more than one ad hoc year. Thereafter we could agree to a base figure for the system which would be between 1000 and 1250 million ecu on 1983 figures but clearly our margin for manoeuvre was not large if we were to obtain a defensible settlement.

The Foreign and Commonwealth Secretary reported on the bilateral discussions which had taken place in the margins of the Foreign Affairs Council, in particular on the line which was being taken by Monsieur Dumas, the French Minister for European Affairs. It now seemed likely that the French would be prepared to maintain the main elements of the system but to set the United Kingdom refund as a percentage of the VAT share/expenditure share gap with no threshold. The acceptability of such a proposal depended on the figures; the percentage must be equivalent to a fair compromise between 1000 and 1250 million ecu on 1983 figures. The Chancellor of the Exchequer said that it was important to seek an arrangement which gave the United Kingdom the best protection at the margin.

/ In discussion,

JH

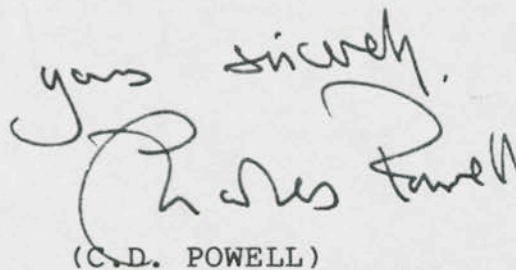
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- 2 -

In discussion, it was pointed out that the basic position of the United Kingdom should be that a substantial amount had been achieved in the text at the last European Council and that, if any Member State began to upset this now, the negotiation would be set back. We must build on what we had achieved so far. It was still not clear what view President Mitterrand would take on the form of any compromise. In particular, the Germans had apparently not yet finalised their position on whether they would seek a threshold or would be prepared to have no threshold but an agreement that they should contribute only two-thirds of their normal share of the United Kingdom refund. This was not a matter of critical importance to the United Kingdom, provided that we protected ourselves effectively against any significant cost from the German arrangements. This should be negotiable.

Summing up the discussion, the Prime Minister said that the United Kingdom's interest was to keep the discussion in the next European Council as far as possible on the same basis as at the last European Council and to retain those elements of the Presidency text which were favourable to the United Kingdom. We were aiming for a system and prepared to reach a compromise between the closing position of the Nine and the United Kingdom in the last European Council and the Foreign Affairs Council of 27 March. It was not possible, in advance of knowing what the French Presidency might propose, to determine whether this would be achieved through a threshold and a rate of compensation above the threshold or by setting a single rate of compensation. In any event, it must be shown to be acceptable in relation to the gap between 1000 and 1250 million ecu on 1983 figures.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely,

(C.D. POWELL)

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

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Qz.03793

MR POWELL

Letter to issue

CJD

I attach a draft letter recording in very summary form the meeting which the Prime Minister had yesterday with the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer about the question of budget imbalances at the next European Council.

D. F. Williamson

D F WILLIAMSON

22 June 1984

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Draft letter from Mr Powell to Mr Bone, FCO

European Council: ~~British Budget Problem~~ *Budget Imbalances*

The Prime Minister held a meeting yesterday with the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer in order to prepare the United Kingdom negotiating position on the budget inequity and United Kingdom refunds for the European Council on 25-26 June.

Sir Robert Armstrong, Sir Michael Butler and Mr Williamson were also present. The European Secretariat of the Cabinet Office had circulated on 14 June a paper summarising the state of the negotiation.

2. The Prime Minister said that we should seek to obtain in the European Council at Fontainebleau on 25-26 June an agreement on the system for correcting the budget inequity which would be as close as possible to that set out in the Presidency text which had been tabled at the last European Council. We should accept no more than one ad hoc year. Thereafter we could agree to a base figure for the system which would be between 1000 and 1250 million ecu on 1983 figures but clearly our margin for manoeuvre was not large if we were to obtain a defensible settlement. /^{3.} The Foreign and Commonwealth Secretary reported on the bilateral discussions which had taken place in the margins of the Foreign Affairs Council, in particular on the line which was being taken by Monsieur Dumas, the French Minister

/for

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for European Affairs. It now seemed likely that the French would be prepared to maintain the main elements of the system but to set the United Kingdom refund as a percentage of the VAT share/expenditure share gap with no threshold. The acceptability of such a proposal depended on the figures; the percentage must be equivalent to a fair compromise between 1000 and 1250 million ecu on 1983 figures. The Chancellor of the Exchequer said that it was important to seek an arrangement which gave the United Kingdom the best protection at the margin.

4. In discussion it was pointed out that the basic position of the United Kingdom should be that a substantial amount had been achieved in the text at the last European Council and that, if any member state began to upset this now, the negotiation would be set back. We must build on what we had achieved so far. It was still not clear what view President Mitterrand would take on the form of any compromise. In particular, the Germans had apparently not yet finalised their position on whether they would seek a threshold or would be prepared to have no threshold but an agreement that they ^{should} contribute only two-thirds of their normal share of the United Kingdom refund. This was not a matter of critical importance to the United Kingdom, provided that we protected ourselves effectively against any significant cost from the German arrangements. This should be negotiable.

4. Summing up the discussion, the Prime Minister said that the United Kingdom's interest was to keep the discussion in the next European Council as far as possible on the same basis as at the last European Council and to retain those elements of the Presidency text which were favourable to the United Kingdom. We were aiming for a system and prepared to reach a compromise between the closing position of the Nine and the United Kingdom in the last European Council and the Foreign Affairs Council of 27 March. It was not possible, in advance of knowing what the French Presidency might propose, to determine whether this would be achieved through a threshold and a rate of compensation above the threshold or by setting a single rate of compensation. In any event, it must be shown to be acceptable in relation to the gap between 1000 and 1250 million ecu on 1983 figures.

5. I am sending copies to Janet Lewis Jones (Lord President's Office), David Peretz (H M Treasury) and to Sir Robert Armstrong.

CDD



10 DOWNING STREET

From the Private Secretary

21 June, 1984

8/10 P.C. ✓

FILE: OD(E) = ✓ HWT ✓ LCO ✓
✓ MAFF ✓ Sol. Gen
✓ LPSO ✓ Lord Adv ✓
✓ A. Gen CO ✓
✓ DJ ✓
✓ NO

1982 RISK SHARING REFUND

The Prime Minister has considered the Foreign and Commonwealth Secretary's minute PM/84/102 of 19 June on this subject.

The Prime Minister made clear at today's briefing meeting for the European Council that she regards the outstanding £42 million of our 1982 risk sharing refund as one of the issues on the table in the negotiations on our budget contribution which will take place at Fontainebleau. We shall need to consider again after Fontainebleau what further action is required. But the Prime Minister has made clear that in the absence of a settlement should would wish to pursue our claim in one way or another.

I am sending copies of this letter to the Private Secretaries of the members of OD(E), to Richard Stoate (Lord Chancellor's Office), Henry Steel (Attorney General and Solicitor General's Office), Christine Duncan (Lord Advocate's Department) and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

R. Bone, Esq.,
Foreign and Commonwealth Office

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TO IMMEDIATE FCO

TELEGRAM NUMBER 2147 OF 21 JUNE

INFO IMMEDIATE PARIS

INFO PRIORITY COPENHAGEN THE HAGUE ROME DUBLIN BONN ATHENS
LUXEMBOURG

INFO SAVING BRUSSELS LISBON MADRID.

MS

EUROPEAN COUNCIL : BUDGETARY IMBALANCES.

1. CONTACTS IN THORN'S ENTOURAGE ASSERT THAT THE COMMISSION IS NOT PREPARING ANY PROPOSAL OF ITS OWN, SINCE THEIR THINKING IS CLOSE TO THAT OF THE PRESIDENCY (DUMAS).

2. THE ONLY SIGNIFICANT WAY IN WHICH THEIR APPROACH DIFFERS IS THAT THE PRESIDENCY SEEM FIRMLY ATTACHED TO THE IDEA OF A SECOND AD HOC YEAR (OR SO MITTERRAND TOLD THORN ON 19 JUNE), WHILE THE COMMISSION BELIEVE THAT WOULD COMPLICATE THE NEGOTIATION POSSIBLY TO THE POINT OF MAKING AGREEMENT IMPOSSIBLE. ALTHOUGH THORN HIMSELF PROPOSED TWO AD HOC YEARS AT BRUSSELS, THAT WAS IN THE CONTEXT OF KOHL'S FIVE AD HOC YEAR PROPSAL, FROM WHICH THORN WAS TRYING TO BRING THE COUNCIL BACK.

3. THORN'S OFFICIALS SUGGEST THAT AT THIS STAGE THE ONLY CONTRIBUTION THEY ENVISAGE THORN MAKING TO THE NEGOTIATIONS IS TO ARGUE AGAINST THE SECOND AD HOC YEAR. HE WILL HOWEVER ONLY DO THIS IF WE HAVE INDICATED READINESS TO NEGOTIATE ON THE BASIS OF DUMAS' IDEAS. ONE ARGUMENT HE IS LIKELY TO ADDUCE IS THAT A SECOND AD HOC YEAR WOULD PRODUCE AN UNMANAGEBLY SUDDEN INCREASE IN U K COMPENSATION IN 1986, AND A SMOOTH PROGRESSION WOULD BE PREFERABLE.

FCO ADVANCE TO:

- FCO - TICKELL RENWICK WALL
- CAB - WILLIAMSON STAPLETON DURIE
- TSY - UNWIN MORTIMER

FCO PASS SAVING TO LISBON AND MADRID.

BUTLER

ADVANCED AS REQUESTED

FRANK ECONOMIC
FCD (I)

COPIES TO: MR WILLIAMSON }
MR STAPLETON } CAB OFF
MR DURIE }

MR UNWIN } H.M. TSY.
MR MORTIMER }

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cdp 21/6



Foreign and Commonwealth Office

London SW1A 2AH

20 June, 1984

Yes - I shall be making a statement on Wednesday

Prime Minister Agree?

John Aubrey,

C.D.P. 21/6

Europe - the Future

The paper on 'Europe - the Future' has now been made available to all EC Heads of Government.

In so far as it was designed to show our partners that we are anxious to get on with the re-launch of the Community and have our own ideas about this, it has already met with some success. It has gone down well in Bonn and The Hague and, following Sir Geoffrey Howe's press conference in Luxembourg yesterday, it has received a great deal of generally constructive publicity.

We now need to consider publication. So far, we are sticking to the line that the paper constitutes a private document between governments which is intended as a contribution to discussion at Fontainebleau. At the same time Ministers in the FCO are drawing on the themes it contains whenever appropriate in speeches about the Community.

Sir Geoffrey Howe believes that after Fontainebleau the paper should be laid before the House. MPs expressed interest in it when he made his statement on the outcome of the Foreign Affairs Council this afternoon. He therefore suggests that a copy be placed in the library of the House on the morning of Wednesday 27 June and that Malcolm Rifkind should use a convenient PQ from Sir Anthony Meyer, of which I attach a copy, to announce that this has been done. Thereafter, the paper would be regarded as a public document.

I should be grateful for the Prime Minister's agreement to proceed on this basis.

[Handwritten signature]

(R. B. Bone)
Private Secretary

C D Powell Esq
10 Downing Street

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~~Press~~

**TO BE CHECKED
AGAINST DELIVERY**

STATEMENT BY THE RIGHT HON SIR GEOFFREY HOWE QC MP,
SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS,
IN THE HOUSE OF COMMONS ON 20 JUNE 1984 ON THE FOREIGN
AFFAIRS COUNCIL MEETING IN LUXEMBOURG 18/19 JUNE 1984.

I will, with permission Mr Speaker, make a statement on the outcome of the Foreign Affairs Council which met in Luxembourg on the 18th and 19th of June. I represented the United Kingdom together with my right honourable Friends the Minister for Overseas Development and the Minister for Trade. Ministerial negotiating conferences with the Portuguese and the Spanish and a ministerial meeting of the EC/Yugoslavia Cooperation Council were held in the margins of the Council.

The Council discussed preparations for next week's European Council. I made clear that if discussion at Fontainebleau was to be of real value, the negotiations started at Stuttgart must also be completed.

On the budget question, I took the opportunity to have a series of separate meetings with each of my Community colleagues, the President of the Commission and the French Presidency. I made clear the view of the British Government that it remains to complete the negotiation on the basis of the texts circulated by the French Presidency at the Brussels European Council by reaching agreement on the notional figure for 1983.

This would determine the scale of our contribution to the Community in future years.

There was also some discussion of the Commission's proposal for a loan to cover the forecast budget overrun in 1984. A number of Member States again expressed reservations about the proposal, reinforced by a recent report by the European Court of Auditors which criticised the Commission's estimates. I reiterated the need for further savings to be found. The issue was remitted to the July Budget Council.

The Council agreed that further work on budget discipline should be undertaken by Finance Ministers. I reminded the Council that an effective system of budget discipline remains one of our conditions for an overall settlement.

The Council discussed the Community's position for the ministerial negotiating conference in Luxembourg on 28 and 29 June between the Community and the African, Caribbean and Pacific signatories of the Lome Convention on a successor to the present Convention.

The Council also considered possible changes in the conciliation procedure for reconciling disagreements between the European Parliament and the Council. In view of Danish opposition, however, no text was adopted and discussion was adjourned.

At the Ministerial conference with the Portuguese, the Community presented declarations on agriculture and on some outstanding points in the external relations chapter. At the Ministerial conference with Spain, the Community presented substantive declarations on agriculture and industrial tariff transition.

The Council formally adopted the new Regulation for the European Regional Development Fund, following a successful conciliation procedure with the European Parliament.

The Council discussed a package of 15 directives designed to agree common technical standards for industrial products throughout the Community. We made clear that the few outstanding technical problems should be speedily resolved so as to clear the way for adoption of the package and of the Common Commercial Policy Regulation to which it has been linked.

We underlined the importance of agreement at the July Council on arrangements for continuing supplies of duty-free newsprint for 1984.


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Qz.03784

EUROPEAN COMMUNITY: REFORM OF COMMUNITY'S FINANCES AND
UNITED KINGDOM REFUNDS

Brief for the Prime Minister for the informal meeting of Ministers
at 4pm on 21 June

PURPOSE AND COMPOSITION OF MEETING

1. This meeting is intended to reach agreement on the main lines of the United Kingdom's negotiating approach at the European Council on 25-26 June on the question of correcting the budget inequity and United Kingdom refunds. Ministers present will be the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer. Sir Michael Butler will also be present.

2. The issues are summarised in the note of 14 June submitted by the European Secretariat of the Cabinet Office after discussion between Departments. The Foreign and Commonwealth Secretary may wish to bring the negotiating position up to date following the many bilateral meetings in the margins of the Foreign Affairs Council on 18/19 June.

3. It is suggested that the main points for discussion might be:
 - (i) how to maximise our chance of an acceptable settlement. The position so far is set out in paragraphs 1-5 of the Cabinet Office paper. The experience at and in the margins of the Foreign Affairs Council of 18-19 June shows that the French Presidency is prepared to make some effort to reach a settlement which would retain the system proposed at the last European Council and aim for a figure between 1000 and 1250 million ecu on 1983 figures as the base

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of the system. Other member states are very torpid but could follow a lead from the French Presidency, if it were firm enough;

(ii) the ad hoc year. There are now very strong reasons for insisting on a single ad hoc year. It is possible, however, that in the course of negotiation other member states will come back to their original position of 2 or more ad hoc years. This must be resisted;

(iii) keeping the system and the base of the system, ie a United Kingdom refund on 1983 figures;

(iv) implementation of the system, if there is an agreement on a figure between 1000 and 1250 million ecu on 1983 figures. The paper explains (paragraph 9) that there are three ways of dealing with this at the European Council: either an agreement on the figure only; or an agreement on the threshold and compensation rate above the threshold which would be consistent with a satisfactory figure; or an agreement on a compensation rate (no threshold) which would also have to be consistent with the figure. It is strongly recommended that you should not commit yourself to one or other of these courses in advance of the meeting of the European Council. If the figure is right, any one of these courses could give us an acceptable result.

4. The United Kingdom objectives are summarised in paragraph 12 of the Cabinet Office paper.

HANDLING

5. You may wish to ask the Foreign and Commonwealth Secretary to set out the negotiating situation and the possible line which the French Presidency may take at the beginning of the European Council (it is not expected that they will table a

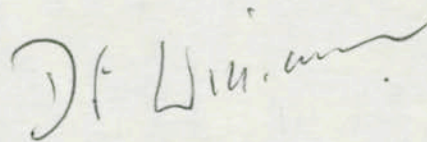
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paper on this question because they have not been able to carry sufficient member states with them). The Chancellor of the Exchequer and the Lord President of the Council will no doubt also wish to comment on each of the points set out above. In addition, the Chancellor of the Exchequer may wish to refer to the public expenditure consequences both of a settlement and of a failure to agree (paragraphs 7-8 of the Cabinet Office paper).

CONCLUSION

6. You may wish to conclude that the United Kingdom objectives should be on the lines of paragraph 12 of the Cabinet Office paper but that it is not possible in advance of the European Council to determine precisely whether an agreement might be reached on the basis of the reference figure alone or of the threshold and rate of compensation above the threshold or the rate of compensation. But, in any event, it will be essential that the agreement does genuinely correspond to a satisfactory compromise between 1000 and 1250 million ecu on 1983 figures.



D F WILLIAMSON

20 June 1984

SUBJECT



10 DOWNING STREET

20 June, 1984

*From the Private Secretary*PRIME MINISTER'S TELEPHONE CALL TO THE NETHERLANDS PRIME
MINISTER, 20 JUNE, 1984

The Prime Minister telephoned Mr. Lubbers in the Hague early this morning shortly before the latter's departure for Paris to see President Mitterrand.

The Prime Minister thanked Mr. Lubbers for his tremendous effort over IMF stationing. Mr. Lubbers said that the Prime Minister's earlier telephone call had been a great encouragement. He had done what he had promised.

Turning to the British budget problem, the Prime Minister said that she wanted to let Mr. Lubbers know how she saw matters before his meeting with President Mitterrand. She had herself spoken to President Mitterrand at the Economic Summit. She thought that he wanted a settlement but was not quite sure. She told him that it was essential not to go back on the last position reached at the Brussels European Council. Discussions at Fontainebleau should start from the basis of the system agreed in Brussels and set the figure on which it should be based. This should be a compromise between 1000 and 1250 million ecus on 1983 figures. On this she could move a bit but not much. The gap measured by the system was not the true gap and she had already made a major concession by accepting this. It would also be important to settle the matter of budgetary discipline at Fontainebleau. Britain and the Netherlands were among the few member states with a serious interest in restraining Community expenditure.

Mr. Lubbers asked when the Prime Minister wanted the system to be introduced. The Prime Minister recalled that she had agreed one ad hoc year with the system coming into force on 1 January 1986. As refunds were always paid in arrears, that would take care of 1985. Mr. Lubbers asked if he had understood correctly that the Prime Minister's advice was to try to reach a compromise on the base figure starting from the last position reached at the Brussels European Council. The figure would have to be higher for the system than for the one ad hoc year. The Prime Minister confirmed this.

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Mr. Lubbers continued that his impression was that a satisfactory text on budgetary discipline had been virtually agreed at the Brussels European Council. The Prime Minister recalled that much work had been done on the text and the important word 'guarantee' inserted into it. She agreed that it was essential to stick to the text though decisions would be needed on how it would be implemented.

Mr. Lubbers concluded that what the Prime Minister had said was clear. He would see what he could do. He had not been in touch with President Mitterrand for some time and was not up to date on his views. He would telephone the Prime Minister if something new emerged from his meeting. The Prime Minister said that it would be marvellous if Heads of Government at Fontainebleau could get rid of the budget problem and could start concentrating on the future development of the Community. This would be good for the Community in the eyes of the world.

I am sending a copy of this letter to David Peretz (HM Treasury).

(C.D. Powell)

R. Bone, Esq.,
Foreign and Commonwealth Office

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10 DOWNING STREET

Prime Minister

If there is no
settlement at Fontainebleau,
should we not
keep our well-founded
claim alive
until the Dublin
European Council
at least?

C.D.P.
should
20/6.
Yes we
must

Ref. A084/1791

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the bilateral meetings which he held with all other Community Foreign Ministers in the margins of the Foreign Affairs Council on 18-19 June about the reform of the Community's financing system and the United Kingdom's refunds. Most member states were waiting for some lead from the French Presidency and from the United Kingdom. This was a negative element. The French Presidency, however, was looking seriously for the basis of an agreement. The French Minister for European Affairs, Monsieur Dumas, indicated that he was exploring the possibility of a settlement on the basis of one ad hoc year with the system thereafter and refunds for the United Kingdom at a rate of two-thirds of the VAT share/expenditure share gap, calculated, as we would wish, on the existing payments basis. On 1983 figures this would give a refund for the United Kingdom of 1081 mecu on a gap of 1622 mecu. The Foreign and Commonwealth Secretary said that it was essential to aim for agreement on the system with one ad hoc year; the figure suggested by Monsieur Dumas, however, was too low. In the margins of this Council Monsieur Dumas was unable to bring other member states into line with his approach. It remains probable that the French will be seeking a solution - with some flexibility - on these lines at Fontainebleau but they are not expected to table a proposal in writing before the meeting.

2. The Foreign and Commonwealth Secretary will also report on the Foreign Affairs Council itself. There was substantial discussion of the negotiating mandate for the accession negotiations with Spain and Portugal, including progress on the industrial tariff arrangements, and a further meeting with the Spanish was held. The French Presidency announced the expected subjects for



discussion at the European Council and indicated that President Mitterrand would write to Heads of Government shortly to explain how he intended to organise the discussion. Clearly a good deal of time will be spent on political co-operation issues (President Mitterrand will have just returned from Moscow) and on the future development of the Community, to which we shall contribute ideas on the lines set out in our paper "Europe - The Future". There will also be some discussion of institutional points, in particular the number of Commissioners after enlargement of the Community and the identity of the new President of the Commission (German candidate awaited). The Foreign and Commonwealth Secretary made it clear that the essential pre-condition for any genuine relaunch of the Community was a solution of the outstanding budgetary issues. On budget discipline the Council of Ministers (ECOFIN) will be continuing the necessary work on the basis of the provisional conclusions of the last European Council in March. On the 1984 budget overrun the result was satisfactory: the United Kingdom's position was fully reserved and it was agreed that discussion would be carried forward in the Council of Ministers (Budget) in July. This reduces the scope for other member states to press the United Kingdom on this point in the European Council.

3. The Foreign and Commonwealth Secretary may also give an assessment of the results of the European Parliamentary elections in other member states.

4. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 18-19 June which voted through, by a qualified majority, a new regulation on aids to the marketing and processing of agricultural products. The United Kingdom abstained because of the financial implications of the whole agricultural structures package. The other agricultural structures regulations were rolled over for four months from 30 June. Some progress was made on New Zealand butter quotas following a demarche by the New Zealand Government. There was an agreement in principle on a five-year arrangement with the quantities fixed for 1984-86; detailed texts will be put to the July Council. The Commission announced that they had rejected Germany's request for



authorisation to give earlier and larger VAT compensation to their farmers in view of the difficulties they faced following the agriculture prices settlement. This presents Chancellor Kohl with a real political problem and the Germans indicated that he might raise the issue at Fontainebleau.

5. Community Ministers of Culture meet on 22 June. The Environment Council meets on 28 June. You will be attending the European Council at Fontainebleau on 25-26 June.

R

Approved by
ROBERT ARMSTRONG
and signed in his absence

20 June 1984



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Prime Minister

Agree?

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PM/84/102

PRIME MINISTER

1982 Risk Sharing Refund

1. Before next week's European Council we need to consider what to do about the outstanding £42 million of our 1982 risk sharing refund.
2. The action we have so far taken with the Commission (my letter to Thorn at the turn of the year) and with the Presidency (my letter to Cheysson of 13 March) has not resolved the issue. Nor did we expect that it would. Our aim was to keep the issue actively before the Community so that it could either be resolved at a European Council or so that, if we eventually decided to go to the European Court, we would not have allowed our claim to lapse by inaction in the meantime.
3. It is now clear that we shall get no action either from the Commission or the Presidency. Our main choices are therefore:-
 - (a) to resolve the matter at the June European Council;
 - (b) to initiate legal proceedings in the European Court of Justice; or
 - (c) to withhold the sum involved.
4. It is clear from the past history of the case that other Member States do not accept our claim that we were underpaid. They are therefore most unlikely to agree, in the European Council, to conceding the £42 million which they have not been willing to agree to over the last year. Nor could we make payment of the £42 million an extra condition of our agreement to an overall budget solution without jeopardising the prospects for a settlement.
5. I have considered whether we might be able to offer to waive the £42 million claim in return for securing something of importance to us in the budget negotiations. Since part of

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the argument over the £42 million rests on our claim that the refund should have been calculated on the Payments Basis, it might be possible to agree to waive the £42 million provided that it was agreed that henceforth the Payments Basis would be used in measuring our VAT contribution and therefore in assessing the budget burden for which we will be compensated under the budget system.

6. I would not rule this out. But since neither other Member States nor the Commission think we have a good case on the £42 million our willingness to waive it does not give us very much leverage. Moreover, we would need to be very careful not to alert Member States to the very great importance which the Payments Basis has for us in terms of our refunds in 1985 in particular. Other Member States do not seem to have yet appreciated that a combination of exchange rate factors and the effects of this years' budget on VAT collection at UK ports will increase our VAT share/expenditure share gap on the payments basis in 1985 by about 360 mecus and hence the refund we will receive if the payments basis is endorsed as the method of calculation. We can only judge how to handle this at Fontainebleau itself.

7. If we cannot use our willingness to waive our claim in order to secure a concession of this kind, we should consider whether, in the event of an agreement being reached on the wider budget negotiations, we should anyway drop the claim given that we would have taken it as far as we can in the Council and with the Commission.

8. Of the alternatives, withholding the sum of £42 million alone has never been a serious option. This leaves the possibility of bringing a case before the European Court. The advice of the law officers has so far been that it would be very difficult to get the Court to consider the case in the first place since it is far from clear that the Article of the Treaty under which we would need to act (Article 175)



can be held to apply to the exact circumstances of our case. If we did succeed in establishing a case the law officers' advice is that our chances of success would be poor.

8. In summary, I see no scope for pursuing our claim in the Foreign Affairs Council. If we get a successful outcome at Fontainebleau, I would not favour recourse to the court. Our chances of success are not high enough to warrant it. The right course in my view would be to pursue the matter no further. We should need to say so in the House, if asked,

9. If we do not get a success at Fontainebleau, we should consider court action but we would need to consult the law officers again first and must recognise that the odds are against a success.

10. I am copying this minute to Members of OD(E), the Lord Chancellor, the Attorney General, the Lord Advocate and the Solicitor General and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
19 June, 1984



CDP 25/6

PM/84/101PRIME MINISTEREuropean Community

1. Mr Lubbers has told our Ambassador in The Hague that he would like to speak to you on the telephone before Fontainebleau. If you can find time to speak to him tomorrow morning before he sees President Mitterrand this would be very useful. Any pressure which steers President Mitterrand towards proposing a solution acceptable to us would be advantageous. I recommend that you should stress the following points to Mr Lubbers:

(i) the Community needs a fair and defensible settlement of the budget issue at Fontainebleau, which will put this problem out of the way and allow the Community to concentrate on its long-term objectives. The United Kingdom will play its part in arriving at a budget solution. We have also made a contribution to the debate on the Community's future development with the recent paper "Europe - The Future" (of which Mr Lubbers has a copy).

*Needs
Play our
part*

(ii) On the budget imbalance and the United Kingdom refund we must not go back on the position reached in the last European Council and the Foreign Affairs Council of 27 March. The United Kingdom is ready to reach a settlement on the basis of the system as proposed by the

/Presidency



Presidency at the last European Council:
one ad hoc year (1984) at 1,000 mecu and
the system thereafter (if there is a settlement
the new owned resources will be available to
apply to the 1985 refund): and a fair compromise
between 1,000 and 1,250 mecu on 1983 figures.

- (iii) We would be prepared to settle only on the
figure to be inserted in the Presidency text,
if this would facilitate an agreement. Equally,
if others wish, we would be ready to settle the
threshold and rate of compensation above the
threshold: this would, of course, have to be
consistent with a fair compromise between 1,000
and 1,250 mecu.

A handwritten signature in blue ink, appearing to read 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
19 June 1984

Prime Minister

C.D.P.

19/6

PM/84/100PRIME MINISTER
European Negotiations

1. During the Foreign Affairs Council in Luxembourg, I took the opportunity to talk to all other Community Foreign Ministers or their deputies bilaterally. I also had a further word with Thorn. In all these meetings I took the line that the way to complete the negotiation was to establish the notional figure for 1983 on the basis of the Presidency text. We had some margin for manoeuvre, but not much. Movement on our side would depend on movement by the other Member States.

2. These meetings did not advance matters. Other member states were inclined to sit on their hands and hope that we would work something out with the French. The smaller ones no doubt would follow the French and Germans if they moved. They all took the line that they had made a major concession in agreeing to the system at all. They were very worried as to how it would operate, both in terms of the size of the refunds it would yield us, and the future implications for the German contribution. Andreotti made a particular fuss about this and was reluctant to contemplate any system. Genscher was unyielding, simply repeating ad nauseam that the Germans had made a major move in agreeing to 1000 mecu in the system. He did say that the Germans wanted the system and would contribute to our refunds on that basis. But the

/Germans



Germans want refunds themselves. The German problem is going to complicate our task at Fontainebleau.

3. I made clear that if a solution were not found on budget imbalances, we did not see how the problem of the budget overrun could be dealt with. The Community would then face increasing difficulties; there could be no effective re-launch etc.

4. The discussions with Dumas were more positive, but I am not at all sure that the French will make a proposal. I insisted on the importance we attached to maintenance of the system. After a considerable song and dance about the difficulties of advancing the negotiation, he offered a 65% or two-thirds return on the VAT share/expenditure share gap i.e. 1081 mecu on the 1983 figures. I made clear that this would not yield an adequate rate of return. I said that the right way to complete the negotiation was to set the notional figure and the threshold. A straightforward percentage return had fewer attractions for us; and the compensation rate Dumas was mentioning was inadequate.

5. In further discussion we talked through the possibility of setting the notional figure. Dumas said that 1125 mecu with a 250 mecu threshold would yield a rate of compensation at over 80%. This was impossible to defend in France. I pointed out that the real rate of compensation would be very much lower, due to the exclusion of 'excess' duties and levies and growth of the threshold, which would grow in line with the increase in our GDP. I did not wish to reopen the theological argument about duties and levies. We were prepared to base a solution on the VAT share/expenditure share gap. But the solution would still have to be justified in Britain in relation to the returns it yielded on the whole gap.



6. The conclusion I draw from all this is that Dumas has been trying to find a solution, but is facing difficulties in Paris as well as with other member states; and the setback Mitterrand has just suffered in the European elections may not help. The French have been finding great difficulty in dealing with the German problem.

7. Davignon's ideas, which have, in any case, been put in different forms to different people, no longer command serious attention. The two routes by which a result might be achieved at Fontainebleau are:

(a) setting the notional figure at, say, 1100 or 1125 mecu, with an appropriate threshold. There will be very great difficulty in getting others to that point. But we should go on pressing the advantages of that course. I see no prospect of getting a higher notional figure.

(b) The French may revert to the idea of a straightforward percentage return. This might attract quite general support. It would be for the French or others to deal with the Germans on that basis, and I am not clear how they would do so. To be worthy of any consideration, such a correction would have to be systematic, i.e. embodied in and co-terminous with the own resources decision. The bulk of the Presidency text would need to be preserved.

8. The reason Dumas and others are interested in this route is that it enables them to pretend that there has been some sort of escape from the 1983 figures. This has attractions for other Member States. They think a more

/direct



direct solution will be represented as a capitulation to us. All the other Member States are refusing to agree to the high nominal percentage refunds which would result from the application of the system. In fact, as I repeatedly reminded Dumas, the results would still have to be read back on to the 1983 figures. I do not exclude entirely that we could get acceptable results by abolishing the threshold.

9. A point we shall have to watch is that if it is not possible to complete agreement on the basis of the Presidency text at Fontainebleau, that text will be withdrawn. There would still be no question of our agreeing to an increase in own resources except on the basis of a systematic correction of our contribution. Both we and other member states have an obvious interest in aiming for agreement - though not at any price - at Fontainebleau. I have no doubt that the negotiations will become more difficult thereafter, not least because the French would feel free to - and would - go back to square one.

10. There will also be further attempts to press again for a further ad hoc year in 1985. I have already dealt very firmly with these, given the anticipated size of our net contribution in that year. I also insisted that the system must operate on the payments basis.

11. A percentage return would not protect us as fully at the margin against future increases in Community expenditure, though that would be partially offset by the disappearance of the threshold and the built-in increase in our contribution which would result from it. Whether the French make a further effort to resolve the matter will, I think, depend on the course of the discussion at Fontainebleau. We should make clear that we are ready to

/make



make the effort to do so. We should continue to press for the negotiations to be completed by setting the notional figure, with an appropriate threshold, for 1983. Failing that, we should still aim to reach agreement on the figure even if other elements, including the means of dealing with the German problem, have to be left to be settled later. Our attitude should depend on whether we could get a sufficiently high overall return by this or other means.

12. I am sending copies of this minute to the Chancellor of the Exchequer and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

19 June 1984

0900Z

BRS 220

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TO IMMEDIATE FCO

TELEGRAM NUMBER 220 OF 19 JUNE 1984

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available 6-8 p.m.

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MB

EC: BUDGETARY IMBALANCES

1. LUBBERS AND VAN DEN BROEK LEAVE TOMORROW MORNING FOR A MEETING WITH MITTERRAND II: PARIS AT THE LATTER'S INVITATION.

2. AT DINNER LAST NIGHT, LUBBERS SAID THAT IT WAS A PITY HE COULD NOT MEET THE PRIME MINISTER BEFORE FONTAINEBLEAU, BUT HE AGREED THAT A TELEPHONE CONVERSATION WOULD BE USEFUL. HE REFERRED FAVOURABLY TO MRS THATCHER'S TELEPHONE CALL JUST BEFORE THE INF DECISION; HE PARTICULARLY APPRECIATED HER OPENING REFERENCE TO THE COMMEMORATION OF 'D' DAY. HE SUGGESTED THAT IF MRS THATCHER WISHED TO SAY SOMETHING BEFORE HIS MEETING WITH MITTERRAND, SHE COULD CALL TODAY OR EVEN EARLY TOMORROW MORNING (I HAVE TOLD LUBBERS' OFFICE THAT THIS WILL HARDLY BE POSSIBLE BECAUSE OF THE FOREIGN AFFAIRS COUNCIL). IF NOT, HE WOULD CONSIDER CALLING HER AFTER HIS MEETING WITH MITTERRAND.

3. IN THE LIGHT OF THIS CONVERSATION, I THINK LUBBERS WOULD BE RECEPTIVE TO A TELEPHONE CALL FROM THE PRIME MINISTER. HE IS BUOYANT AFTER HIS SUCCESSFUL HANDLING OF THE INF ISSUE. I TOLD HIM I BELIEVED THAT HE WOULD NOW CAP THIS ACHIEVEMENT BY ANOTHER SUCCESSFUL AND POSITIVE CONTRIBUTION TO A SOLUTION AT FONTAINEBLEAU. HE WILL CERTAINLY BE GIVING EC PROBLEMS HIS FULL ATTENTION NOW THAT INF IS OUT OF THE WAY FOR THE TIME BEING.

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MANSFIELD

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(84)351 final

Brussels, 18 June 1984

THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication from the Commission to
the European Council of 25-26 June 1984)

COM(84)351 final

THE ECONOMIC AND SOCIAL
SITUATION IN THE COMMUNITY

(Communication from the
Commission to the European Council of 25-26 June 1984)

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- I. The economic situation in 1984 and 1985
- II. Problems facing the European economies and economic policy priorities
- III. External uncertainties

INTRODUCTION

The economic situation has changed little since last March when the European Council last met. The most recent indicators have confirmed or accentuated the three main features of the Community economy in mid-1984:

- the economic recovery is a little stronger than was expected at the end of 1983; it is accompanied by a reduction in the main disequilibria (inflation, budget deficits, external accounts) and by a growing convergence in Member States' performances;
- however, the recovery is not strong enough to bring any general improvement in the employment situation in the immediate future;
- continuation of the recovery depends partly on the external environment, i.e. on developments in a number of areas which affect the growth of the world economy: interest rates, exchange rates and international indebtedness.

I. THE ECONOMIC SITUATION IN 1984 AND 1985

A. The growth rate of international trade is expected to accelerate further taking 1984 as a whole and to remain strong in 1985. It is forecast to be nearly 7% in volume terms in 1984 and more than 4% in 1985, notably under the impact of growth in the OECD countries, which is expected to reach 4.5% in volume terms in 1984 and around 2.5% in 1985. Overall, taking the three years 1983, 1984 and 1985, real growth in the OECD countries as a group should average around 3% per year as compared with 0.2% in 1982.

World trade could thus expand at a significantly faster rate.

This prospect depends essentially on the growth profile of the industrialized countries, which in turn depends to a large extent on:

- growth in the American economy being maintained at a satisfactory level;
- interest rates and exchange rates moving in such a way that they do not choke off the recovery, particularly the recovery in investment, and do not show sudden changes that would affect the return to a climate of greater confidence;
- an improvement in the developing countries' terms of trade.

8. If these conditions are met, the recovery should be able to continue in the Community in 1984 and be maintained in 1985, though at a lower rate because of the slowdown in the growth of international trade. The Community economy is expected to grow at a rate of about 2.2% in 1984 and 2% in 1985 under the impact of the growth of world trade and the recovery in some Member States (Federal Republic of Germany: 3% in 1984 and 2.5% in 1985; United Kingdom: 2.7% in 1984 and 2.1% in 1985): this trend is likely to spread to a greater or lesser extent to the other Community countries.

However, two comments must be made on this prospect of a continuing recovery in the Community:

- firstly, appreciable though it may be following the recession which began in 1979, growth is likely to remain modest compared with past performance (from 1969 to 1976, the growth rate of Community GDP averaged 3.6% a year and, from 1977 to 1980, it was still 2.9%). This slowdown coincides with a decline in the potential rate of growth[†]: estimates indicate that while the Community's potential growth rate was still in the 3.7% to 4% range between 1970 and 1974, it fell to around 2.9% in the period 1977-80;

[†]This is the growth rate that is theoretically possible in a given period, representing the maximum rate of utilization of factors of production.

- the second comment concerns the self-sustaining nature of the recovery and the role of investment. Whereas the recovery in 1983 was largely generated by the external sector, productive investment should play a greater role in fuelling the growth process in 1984 and 1985. In 1983, investment volume had already stopped declining throughout the Community and was showing appreciable increases in the United Kingdom (4.7%) and in the Federal Republic of Germany (2.9%). In 1984, it should grow by some 3.4% in the Community as a whole and by 3.8% in 1985.

C. The inflation rate is expected to continue to fall in 1984 and 1985, to 5% this year and 4.3% next year, or half the average annual inflation rate in the period 1971-80. As in 1984, this trend will probably be accompanied by a narrowing of differentials between EMS countries, with inflation rates ranging between 2.9% and 10% in 1984 and, according to certain hypotheses based on the determined continuation of policies aimed at restoring the key equilibria, between 2% and 6.5% in 1985.

D. The main adjustments in internal and external disequilibria (incomes, public deficits and external accounts) which were initiated in 1983 are expected to continue in 1984-85. In these areas, there should also be a reduction in divergences within the Community, though to a lesser extent than in the case of inflation.

E. If the prospective trend for 1984-85 is relatively encouraging with regard to inflation and, to a lesser extent, growth, it is very unsatisfactory with regard to employment. Despite the recovery, the unemployment rate could continue to rise to reach an annual average of 11.4% in 1985, as against 10.4% in 1983.

This is linked to the fact that growth in 1984-85 is likely to be lower than the average rates observed during longer periods in the past, while, even if there is little change in the total employed population, the Labour force will continue to increase.

Thus, despite a less sharp increase and indeed a stabilization of unemployment in the Federal Republic of Germany and the United Kingdom in 1984-85, the overall trend of unemployment in the Community is very worrying.

*
* *

The outlook for 1984-85 is thus for further consolidation of the recovery in the Community. The Community economy is expected to return gradually to a more satisfactory growth rate as the stabilization and adjustment policies currently being pursued produce results. However, though this outlook may be moderately satisfactory, it remains subject to considerable internal and external uncertainties.

II. Problems facing the European economies and economic policy priorities

The uncertainties as to the durability of the economic recovery and as to the chances of beginning to reverse the trend of employment are closely bound up with the structural weaknesses of the European economies.

Significant progress has no doubt been made in achieving stabilization and adjustment in recent years; however, such progress, which would certainly be facilitated by a sustained recovery, must be maintained if there is to be strong enough growth, over a sufficiently long period, to obtain a more favourable trend in employment.

A. Experience and a comparison between the different regions show that there is a link between job creation (and, hence, a fall in the unemployment rate) and the strength of competitive structures.

A comparison between European and American performances on job creation is equally enlightening. The facts revealed are well known, and the Commission has already presented them to the European Council: from 1973 to 1983, total employment fell in the Community from 106 million to 104 million, whereas it increased in the United States from 85 million to more than 100 million. During the same period, the ratio of labour costs to return on capital increased by 2.4% a year in the Community but decreased by 0.4% in the United States, while capital endowment per person employed increased by 3% a year in the Community, but by only 0.3% in the United States. Admittedly, during this period average annual real growth was 1.6% in the Community, whereas it was 2% in the United States. However, the profitability of companies has begun to improve, in some cases very appreciably, in certain Community countries during the last two years, reflecting the adjustment process that is under way. Even so, the figures cited above (which should be interpreted in the light of demographic trends) illustrate just how much the capacity to achieve growth that can create lasting employment depends on an appropriate trend in production costs, particularly the relative costs of labour and capital.

- B. The adjustment and stabilization efforts being undertaken must therefore be continued and, at the same time, helped by lower inflation, the conditions must be created for sustained stronger growth. Close consistency must consequently be ensured between short-term economic policies and policies to adjust production structures.

This means that economic policies must be geared to two objectives: consolidating the slowdown in inflation, or where appropriate obtaining a sharper deceleration and increasing the flexibility and dynamism of the economies of Member-States.

1. Short-term economic policies must continue to be aimed at restoring the key equilibria and pursuing the fight against inflation:

- monetary policies must continue to ensure that the trend of the monetary aggregates is such as to prevent the re-emergence of inflationary expectations, while at the same time seeking to establish the conditions for getting interest rates down to as low a level as possible;
 - budgetary policies must pursue a threefold objective: reducing the deficits which in several Member States are still claiming an excessive proportion of savings and are keeping interest rates high; stabilizing, then reducing the share of public expenditure; and restructuring public budgets in such a way as to restore their role in supporting and underpinning growth by modifying taxation and by strengthening in particular measures to promote investment, research and training. Efforts in this area are of overriding importance in cases where the trend of deficits is handicapping the fight against inflation and threatening the recovery;
 - the growth of incomes must be consistent with the need to keep the economies competitive and flexible.
2. The second objective of economic policies must be to strengthen structures and introduce greater flexibility into the economies, both being necessary if employment is to recover:
- even though investment is picking up again in the Community, it must not be forgotten that the Community's economy is emerging from a long period - beginning in 1975 - during which the investment share in the Community declined steadily; this coincided with the premature obsolescence of much of the capital stock as a result of changes in relative prices (oil shocks) and technology. Hence the need for improved investment performance over an extended period if ground is to be made up in the adaptation and modernization of productive structures and if the potential growth rate of the European economies is to be gradually raised.

The Member-States must therefore press ahead with the measures taken to alter legislation, taxation and regulations so that they favour productive activity. This objective will have to be attained through a set of measures which in isolation are often unspectacular but whose combined effect can make a significant contribution to the restoration of more stable and lasting growth. This means essentially changing taxation and easing the regulatory framework, promoting competition and securing better use of productive structures.

Lastly, the outlook on unemployment confirms the importance of the role which must be played by active employment policies. Measures to reduce and reorganize working time may help to improve the employment situation provided that they respect the constraint of competitiveness, that they enable the productive system to be used more flexibly and more efficiently, that they assist structural change and that they do not create bottlenecks in labour supply. An unequivocal stand by the Community could give employers and unions valuable guidance here. The Member States must also reinforce their specific measures to increase youth employment and alleviate the problem of long-term unemployment. Lastly, the return to higher growth is closely linked to labour market flexibility, and it is important that changes be made in this area, notably in respect of the operation or forward planning of labour markets, and that vocational training policies be given a higher priority.

C. The Community can contribute to the success of these policies in three ways:

- the effects of internal economic cohesion, monetary stability and collective discipline in economic policies represent a valuable achievement and have a very direct bearing on the existence of the Community as a homogeneous and open entity: in this respect the role of the EMS is fundamental and its consolidation should be a primary objective;

- exploitation of the advantages of a large integrated economic entity such as the Community can more than ever help the European economies to adjust and to achieve a lasting return to competitiveness. In this respect, the completion of a single, continental-size market by a range of radical measures in fields such as the movement of goods and services, technical barriers and standards, taxation and company law, may make a direct contribution to the restoration of higher growth;
- Lastly, the Community countries, largely united in the pursuit of the required modernization of productive activities through faster technological development, should take more systematic advantage of the added effectiveness offered by common measures in the field of technology, whether these be closer coordination in the use of government procurement, the mutual recognition of standards in high-technology industries, pre-competitive research, or training.

III. EXTERNAL UNCERTAINTIES

Several uncertainties originating from outside the Community could affect the economic recovery. These include, of course, the implications for Europe of a possible reduction in Gulf oil supplies. The two main factors of uncertainty, however, are the international monetary situation and the problem of developing countries' indebtedness.

A. The international monetary situation is marked by the increase in real interest rates and continued existence of exchange rate relationships which do not sufficiently reflect economic fundamentals.

From 1981 onwards, real short- and long-term interest rates in the United States were hovering around 6%. After easing slightly in 1983, they have risen again since early 1984. It is true that in Europe interest rates have not risen

to the same extent, and full use has been made of any scope for decoupling them in practice from United States interest rates, to assist the recovery in Europe. Yet, in the wider world context, higher interest rates could affect the economic recovery in three main ways: they increase the developing countries' burden of indebtedness; they raise the threshold above which investment becomes profitable, and therefore jeopardize its growth; and, pushing up both prices and the cost of servicing the public debt, they make it more difficult to pursue stabilization policies.

The recovery could also be undermined by the movement of exchange rates, coupled with heavy current account deficits in some countries.

These two problems - the movement of exchange rates and the level of interest rates - stem partly from the mix of United States monetary and fiscal policies. There is no doubt that this policy has brought about rapid stabilization, and then a strong recovery, of the United States economy, and hence of world trade (in 1983 the volume of United States imports increased by 12%). It is also true that at 4.4% of GDP in 1983, the United States public sector deficit is much smaller than the general government deficit recorded in a group of Community countries where efforts to establish a healthier public finance situation must be continued as a matter of priority. The United States public sector deficit is, however, appreciably larger than the deficits in the Federal Republic of Germany, France and the United Kingdom. Moreover, it must be set against the structurally very low savings ratio in the United States (5.8% of personal disposable income in 1983) and against the fact that, combined with high interest rates and a heavy current account deficit, it is bound to have something of a crowding-out effect in the other economies.

On both questions (interest rates and exchange rates), the Community must push forward with the efforts made since the Versailles summit to secure, through proper supervisory machinery, greater coherence of economic policies and to lay the foundations for organized monetary

cooperation between the principal monetary entities. The work started in 1982 is continuing within the Group of Ten. As the Commission has advocated, the Community should adopt common positions and should be able to make concrete proposals at the appropriate time on the main subjects under examination.

B. The second problem is that of international indebtedness. This is being dealt with in a variety of forums, and was notably discussed at the last economic summit in London. The Community must participate in the overall strategy into which the specific solutions most appropriate to each particular situation can be fitted.

This strategy covers the following main questions:

- first, an improvement in the financial position of the developing countries depends in large measure on a better international environment as regards interest rates, exchange rates and the opening up of markets; the conclusions reached in work done elsewhere on these subjects will therefore have a direct impact on indebtedness problems;
- second, if the most heavily indebted countries are to achieve a healthier financial position, economic recovery must continue in the industrialized countries and the developing countries' terms of trade must be improved;
- third, the Community should - also in the context of the forthcoming international meetings and in particular the IMF meeting in September - join in the various specific initiatives in the international financial field which were outlined at the recent London summit and which closely correspond to its earlier policy thinking.

GRS 140

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FM BONN 181400Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 604 OF 18 JUNE

INFO IMMEDIATE LUXEMBOURG (FOR S OF S PARTY), UKREP BRUSSELS, PARIS
INFO SAVING OTHER EC POSTS

EUROPEAN COUNCIL - BUDGET CONTRIBUTIONS

1. IN AN ARTICLE TODAY HEADED 'KOHL CAVES IN', SPIEGEL CLAIMS THAT THE TOUGH LINE BEING ADOPTED BY KOHL AND MITTERRAND ON THE UK'S BUDGET REBATE IS A BLUFF. BOTH ARE SAID TO BE SECRETLY PREPARED TO MEET MOST OF THE PRIME MINISTER'S DEMANDS SINCE THE EC NEEDS LONDON'S APPROVAL TO FILL THE GAP IN THE 1984 BUDGET, WITHOUT WHICH THE COFFERS WILL BE EMPTY IN SEPTEMBER. THE ARTICLE ASSERTS THAT IN A TALK IN THE MARGINS OF THE ECONOMIC SUMMIT THE PRIME MINISTER AND MITTERRAND MARKED OUT THE COURSE, MITTERRAND SAYING HE WOULD OPEN THE NEGOTIATIONS AT FONTAINEBLEAU WITH THE OFFER MADE IN BRUSSELS OF 1000 MILLION ECU. ACCORDING TO A 'BRITISH EC DIPLOMAT', SPIEGEL CLAIMS, THE PRIME MINISTER WOULD SETTLE FOR 'SOMETHING AROUND 1100 TO 1150 MILLION'. THE EC SPECIALISTS IN LONDON, PARIS AND BONN ARE SAID TO BE PUTTING A FORMULA TOGETHER ALREADY TO CAMOUFLAGE MITTERRAND'S AND KOHL'S CAVE-IN SO AS TO AVOID LOSS OF FACE.

FCO PLEASE PASS SAVINGS AND ADVANCES:

FCO - TICKELL, RENWICK, FAIRWEATHER

CAB OFF - WILLIAMSON, DURIE

HM TSY - UNWIN, FITCHEW, MORTIMER

TAYLOR

(ADVANCED AS REQUESTED)

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FM BONN 181515Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 606 OF 18 JUNE

INFO IMMEDIATE LUXEMBOURG (FOR S OF S PARTY)

UKREP BRUSSELS AND PARIS - PERSONAL FOR AMBASSADORS

YOUR TELNOS 328 AND 329

EUROPEAN COMMUNITY: CALL ON CHANCELLOR KOHL

1. ALTHOUGH I MADE IT CLEAR TO THE CHANCELLOR'S OFFICE THAT I WAS READY TO MEET HIM AT ANY PLACE AND AT ANY TIME BEFORE HIS DEPARTURE FOR HUNGARY ON 21 JUNE, I HAVE SO FAR NOT BEEN ABLE TO GET AN APPOINTMENT. IN ORDER NOT TO WASTE TIME I AGREED TO CALL THIS MORNING ON THE MINISTER OF STATE IN THE KANZLERAMT, DR JENNINGER WHO HAD BEEN CHARGED BY THE CHANCELLOR TO SEE ME. I MADE IT CLEAR TO JENNINGER HOW DISAPPOINTED THE PRIME MINISTER WOULD BE THAT I HAD NOT YET BEEN ABLE TO SPEAK TO HIM. THE PRIME MINISTER THOUGHT IT ESPECIALLY IMPORTANT THAT THE POINTS SHE HAD TO MAKE SHOULD BE MADE PERSONALLY TO THE FEDERAL CHANCELLOR AND THAT HIS REACTIONS THERETO COULD BE REPORTED TO HER. IT WAS VITAL AT THIS STAGE TO ENSURE THE BEST POSSIBLE COMMUNICATION. JENNINGER APOLOGISED THAT IT HAD NOT BEEN POSSIBLE TO ARRANGE AN APPOINTMENT WITH THE CHANCELLOR. TODAY THE CHANCELLOR WAS ALL DAY TIED UP WITH PARTY OFFICIALS ASSESSING THE OUTCOME OF THE EUROPEAN ELECTION. BUT, JENNINGER WOULD SEE WHETHER IT STILL MIGHT BE POSSIBLE AND WOULD LET ME KNOW. I AM NOT CONFIDENT THAT IT WILL BE POSSIBLE TO SEE THE CHANCELLOR BEFORE HE LEAVES FOR HUNGARY.

2. I WENT THROUGH THE POINTS IN YOUR TELNOS 328 AND 329.

3. I REFERRED TO OUR PAPER ON EUROPEAN UNION, POINTING OUT THAT IT PROPOSED A RANGE OF CONCRETE MEASURES AIMED AT MAKING EUROPE MORE OF A REALITY. IT DID NOT GO IN FOR GRANDIOSE PHRASES. THAT WAS NOT OUR STYLE. BUT IT ADDED UP TO A CLEAR AND PERSUASIVE VISION OF THE FUTURE OF EUROPE AND WAS ONE, MOREOVER, ON WHICH THE PRIME MINISTER HAD SET HER OWN STAMP. IT CONTAINED A VERY FAR REACHING PROGRAMME, THE AIM OF WHICH WAS, IN ACCORDANCE WITH THE TREATY'S PREAMBLE, TO BRING THE PEOPLE OF EUROPE TO EVER CLOSER UNION. I WAS GLAD TO SEE THAT THE CHANCELLOR HAD SPOKEN OF THE NEED FOR A STEP BY STEP APPROACH (MY TELNO 601).

4. THE COUNCIL AT FONTAINEBLEAU OFFERED THE CHANCE OF A TURNING POINT FOR THE COMMUNITY. IF THE STUTTGART PACKAGE COULD BE FINALLY PUT TOGETHER THEN THE WAY LAY OPEN FOR THE COMMUNITY'S FUTURE DEVELOPMENT. FOR THIS REASON THE PRIME MINISTER WAS VERY KEEN ON SUCCESS. A FURTHER FAILURE AND THE CONTINUATION OF THE DISPUTES THAT HAD HINDERED THE COMMUNITY OVER THE PAST YEARS WOULD BE VERY DAMAGING. A DISAPPOINTINGLY LOW TURN OUT IN THE EUROPEAN ELECTION WAS PROOF THAT THE COMMUNITY NEEDED A SUCCESS MORE THAN EVER. THE PRIME MINISTER WANTED EUROPE TO BE STRONGER AND TO MAKE ITS VOICE FELT. IT WAS IMPORTANT THAT THE CHANCELLOR SHOULD UNDERSTAND THAT.

CONFIDENTIAL

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9. I REMINDED JENNINGER OF THE IMPORTANCE THE PRIME MINISTER ATTACHED TO GETTING GOOD PEOPLE FOR THE COMMISSION. THIS WAS PARTICULARLY IMPORTANT FOR THE JOB OF PRESIDENT. SHE WOULD LIKE TO KNOW WHETHER THE GERMANS HAD YET DECIDED ON A CANDIDATE. JENNINGER SAID THAT GERMAN CONSIDERATION WAS NOT YET COMPLETE. THE CHANCELLOR HAD ALWAYS BEEN OF THE VIEW THAT IT WOULD NOT BE POSSIBLE TO DECIDE ON A GERMAN CANDIDATE, OR THAT WHETHER OR NOT THERE SHOULD BE A GERMAN CANDIDATE AT ALL, UNTIL AFTER THE EUROPEAN ELECTION. THE CHANCELLOR WOULD NOW, FOLLOWING THE ELECTION, WANT TO SEE WHAT THE EFFECTS WERE ON POLITICAL RELATIONSHIPS WITHIN THE FEDERAL REPUBLIC BEFORE TAKING A DECISION. JENNINGER EXPECTED A DECISION TO BE TAKEN IN THE COURSE OF THIS WEEK. WHEN I PRESSED HIM, HE ADMITTED THAT BIEDENKOPF REMAINED A SERIOUS CONTENDER.

10. 1983 REFUNDS (UNDERLINED).

I REMINDED JENNINGER THAT THESE REFUNDS HAD BEEN BLOCKED BY THE FRENCH AND THE ITALIANS. THIS WAS VERY DISAPPOINTING. IF THE STUTTGART PACKAGE WERE NOT SOLVED AND THESE REFUNDS REMAIN UNPAID THEN THE COMMUNITY WOULD FACE A VERY DIFFICULT SITUATION. THAT WOULD BE MADE EVEN WORSE BY THE PROBLEM OF THE 1984 BUDGET SHORTFALL. JENNINGER TRIED TO ARGUE THAT THE 1983 REFUNDS WERE SUBJECT TO AGREEMENT ON THE STUTTGART PACKAGE. I EXPLAINED TO HIM THAT THAT WAS NOT THE CASE, THAT THE FRENCH HAD MADE THIS CONNECTION ONLY AFTER THE MEETING AT STUTTGART. THE TEXT OF THE PRESIDENCY CONCLUSIONS WAS QUITE CLEAR. IN CONCLUSION, I SAID TO JENNINGER THAT IT WAS NOT TO BE EXPECTED THAT THE BRITISH WOULD AGREE A LONG TERM INCREASE IN THE COMMUNITY'S RESOURCES FOR A SHORT TERM PATCHED UP SOLUTION TO THE PROBLEM OF BUDGETARY IMBALANCES.

11. COMMENT (UNDERLINED).

JENNINGER DID NOT SEEM WELL BRIEFED. BUT STABREIT, THE CHANCELLOR'S DEPUTY DIPLOMATIC ADVISER, WHO WAS ALSO PRESENT, TOOK A NOTE. I HOPE THEREFORE THAT OUR POINTS WILL HAVE BEEN ACCURATELY RECORDED AND THAT THEY WILL REACH THE CHANCELLOR. BEFORE GOING IN TO SEE JENNINGER I HAD A BRIEF WORD WITH STABREIT WHO EXPRESSED HIS CONFIDENCE THAT AGREEMENT WOULD BE REACHED IN FONTAINEBLEAU AND WHO CLAIMED THAT THE FRENCH WERE, AND HAD ALL ALONG BEEN, VERY KEEN TO SETTLE. THE RESULTS OF THE EUROPEAN ELECTION WOULD INCREASE MITTERRAND'S DESIRE FOR A SUCCESS. I DOUBT THAT I SHALL NOW SEE KOHL BEFORE HE GOES TO HUNGARY ON 21 JUNE.

(CCN: PARA 8 LINE 5 - PLEASE DELETE FULL STOP AFTER 'DISAPPOINTING')

FCO PLEASE ADVANCE TO:
CAB OFF - WILLIAMSON, DURIE
FCO - TICKELL, RENWICK, FAIRWEATHER

TAYLOR
LIMITED
ECD(1)
WED
PS
PS/MR RIFKIND
PS/PUS
SIR J BULLARD

SIR C TICKELL
MR RENWICK
MR JENKINS

COPIES TO:
MR WILLIAMSON
CAB OFFICE.

3.
CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

18 June, 1984

PESC Projection of Net Payments to EEC Institutions

The Prime Minister has seen the Chancellor's minute of 15 June. She is content that the PESC Report, which is to be circulated shortly, should simply refer to the baseline figures in the last PEWP and omit from the Report any updated estimates or assumptions for our net payments. She is content also that the position should be reconsidered after the June Economic Council.

I am sending a copy of this letter to Roger Bone (Foreign and Commonwealth Office).

ANDREW TURNBULL

David Peretz, Esq.,
H.M. Treasury



10 DOWNING STREET

Asked Resident Clerk Fco to despatch
telegrams

10.40 16/6/84.

CST.

[Handwritten signature] 18/6.

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

Agree?

C.D.P.
15/6

June
15 January, 1984

Jan Archer,

Yes mk

Call by Sir J Taylor on Chancellor Kohl

Following this morning's meeting, I enclose two draft telegrams to Bonn incorporating a speaking note for use by Sir Jock Taylor when he calls on Chancellor Kohl.

We have tried to avoid going into too much detail in a message of this kind. But, in view of the fact that the Germans have been told by the French that we have not ruled out a second ad hoc year, we thought it necessary to stress that agreement would not be possible on that basis and that we must complete the work already begun on the basis set out in the Presidency text at Brussels.

The speaking note has been seen and approved by the Foreign Secretary.

(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

OUT TELEGRAM

Classification and Caveats

Precedence/Deskby

CONFIDENTIAL

IMMEDIATE DESKBY 160900Z

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	
DESKBY	5	DESKBY 160900Z JUN 84
FM FCO	6	FM FCO 151725Z JUN 84
PRE/ADD	7	IMMEDIATE BONN
TEL NO	8	TELEGRAM NUMBER
	9	REPEATED FOR INFO TO IMMEDIATE PARIS, UKREP BRUSSELS
	10	PERSONAL FOR AMBASSADORS
	11	EUROPEAN COMMUNITY: YOUR CALL ON CHANCELLOR KOHL
	12	1. Thank you for coming back here at such short notice.
	13	2. MIFT contains the speaking note on which you should
	14	draw when you see Chancellor Kohl. Your telsno 586 and 589
	15	and some other indications suggest that the French still hope
	16	to be able to reach a settlement on the basis on a <u>second ad</u>
	17	<u>hoc year</u> and may suggest a notional figure for <u>1986</u> rather
	18	than 1983. It will be important to explain to Kohl that agreement
	19	at Fontainebleau is possible, but can only be reached on the
	20	basis of the progress so far achieved ie by moving forward
	21	on the 1250/1000 mecu difference on the notional figure for
///	22	1983, the one remaining gap in the Presidency text tabled at
///	23	the last European Council. We could not do so by changing
/	24	the base year (which would be a step backwards even from 1000
	25	mecu on the system) ^{or on} over the basis of a second ad hoc year.

NNNN ends
telegram

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Catchword
The 3.

File number

Dept

Distribution

ECD(I)

Limited

Drawn by (Block capitals)

PS

J S WALL

PS/Mr Rifkind

PS/PUS

Telephone number

Sir J Bullard

Sir C Tickell

233 5629

Mr Rifkind

Mr Jenkins

Any word for despatch

ECD(I)

WED

Control reference

Time of dispatch

Mr Williamson, Cabinet Office

OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

IMMEDIATE

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2 3. You may also wish to go over the same ground with
3 Teltschik.

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Catchword

OUT TELEGRAM

Classification and Caveats
CONFIDENTIAL

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5	DESKBY 160900Z JUN 84
6	FM FCO Z JUN 84
7	IMMEDIATE BONN
8	TELEGRAM NUMBER
9	REPEATED FOR INFO TO IMMEDIATE PARIS, UKREP BRUSSELS
10	PERSONAL FOR AMBASSADORS
11	MIPT: EUROPEAN COMMUNITY: YOUR CALL ON CHANCELLOR KOHL
12	1. Following is text of speaking note on which you should draw
13	in your meeting with Kohl:
14	
15	2. Following your meeting with the Prime Minister in London she
16	has asked me to call on you so that there is no misunderstanding
17	about our approach to the European Council.
18	
19	3. The paper the Prime Minister gave you last week represents a
20	serious contribution to discussion on the future shape of the
21	Community. Our focus is on practical steps but they are
22	practical steps with far reaching implications for the growing
23	unity of the Community. The Prime Minister looks forward to
24	substantial discussion at Fontainebleau. She hopes that this
25	European Council will mark a turning point in the Community - the

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NNNN ends telegram	BLANK	Catchword fulfillment
File number	Dept ECD(I)	Distribution Limited Mr Jenkins PS ECD(I) PS/Mr Rifkind WED PS/PUS Mr Williamson, Sir J Bullard Cabinet Office Sir C Tickell Mr Rifkind
Draited by (Block capitals) J S WALL		
Telephone number 233-5629		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats
CONFIDENTIAL

IMMEDIATE

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2 fulfillment of the tasks we set ourselves at Stuttgart under your
3 leadership.

4
5 4. The great achievement of Stuttgart was that we all agreed on
6 the kind of Community we wished to see and that certain hard
7 decisions had to be taken before the relaunch could happen. We
8 have got very close to taking those decisions. We agreed
9 virtually all of the package in March, including a reform of the
10 Community's approach to expenditure which reflected our common
11 interest in budget discipline. This is an issue on which we can
12 look forward to even firmer French support as France becomes an
13 increasingly significant net contributor.

14
15 5. If we are to set the Community on a new track we now need to
16 complete the work begun under your Presidency at Stuttgart. The
17 Prime Minister wants you to be in no doubt of her desire to
18 settle the budget issue. The last thing we want is to see the
19 Community facing deepening financial problems and growing
20 acrimony among Member States. If we do not get agreement, that
21 is what will happen. All the effort of the last year will go for
22 nothing and none of our hopes for the future of the Community
23 will be realised. The Prime Minister wants to put behind us the
24 repeated, acrimonious negotiations on this subject, to settle it
25 once and for all and to get on with realising the goals we all
26 share for Europe's future.

27
28 6. The basis of an agreement must be the position we reached in
29 March after months of negotiation. In other words, on our side,
30 we could accept one more year of ad hoc refunds in 1984 with the
31 budget system starting in 1985. We could not accept more than
32 one more ad hoc year.

NNNN ends
telegram

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Catchword:

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2 7. The simplest way to resolve the outstanding issue is to set
3 the notional figure for 1983 which will determine how the system
4 works from 1985 onwards. Our partners have offered 1000 mecus.
5 We said at Brussels that we could accept 1250 mecus. It is wrong
6 to talk of a juste retour. As our unadjusted contribution rises
7 from 2 billion to 3 billion ecus we shall, even under the system,
8 be contributing very large amounts to the Community and to the
9 costs of enlargement.

10
11 8. An effort will now be required by us all to settle the
12 matter. The Prime Minister hopes you will bear in mind that any
13 move towards an agreement is far more costly to the United
14 Kingdom than for the other Nine. We are, however, ready to join
15 with you and our other partners in making a further final move on
16 the notional figure: whatever the cost of the solution to any and
17 all of us, it cannot fail to be less than the cost of failure
18 with all its implications for the present functioning, as well as
19 the future development, of the Community. And the cost of
20 closing the gap will only be a fraction of the amount of the
21 rising costs the Community will face in the years ahead.

22
23 9. But I must emphasise that, if we are to reach agreement, it
24 cannot be on the basis of a different approach which goes back on
25 the position we reached in March. We have been in touch with the
26 French Presidency. But we are not sure exactly what they have in
27 mind. It is vital to adopt an approach which will make agreement
28 possible. There has been talk of adding a second ad hoc year to
29 the first ad hoc year on which we agreed at Brussels. That would
30 not be possible. The system should apply from 1985. It should
31 be based on the notional figure relating to our contribution in
32 1983, as set out in the Presidency's text. To delay the start of
33 the system and try to fix the level of our contribution in 1986
34 would re-open the whole negotiation and could give a worse result

Catch word

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Classification and Caveats
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IMMEDIATE

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1 <<<<
2 than the figure of 1000 mecus on 1983 figures which was put
3 forward in Brussels. We can only settle this matter by moving
4 forward from the point reached at Brussels, ie from 1250 and 1000
5 mecus in the system.

6
7 10. When you and the Prime Minister met at Chequers last month,
8 you agreed that movement was necessary on all sides if a
9 settlement was to be reached and you made this clear publicly
10 after your subsequent meeting with President Mitterrand. The
11 Prime Minister has indicated her willingness to work for an
12 agreement on numerous occasions over the last few weeks. That
13 willingness has been reciprocated in your own statements. We are
14 convinced that agreement is possible at Fontainebleau. The Prime
15 Minister will be prepared to make the extra effort needed to
16 achieve it, if others are prepared to do the same. The matter
17 can and will be resolved but we must move forwards, not
18 backwards. Only on that basis can we reach agreement.
19 Thereafter, we shall be able to move forward in our discussions
20 on the future of Europe with the Community on a sounder and
21 firmer budgetary basis.

22
23 11. On the Commission: Prime Minister has asked me to enquire
24 when you plan to let us know who your candidate for Presidency
25 will be.

26
27 12. [1983 refunds: Community cannot go back on commitment
28 entered into by Heads of Government].

29
30 HOWE

31 NNNN
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WNN ends
telegram

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Catchword

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15 JUN 1984



le NO
 Prime Minister^①

Agree no figures before European Council, and further consideration hereafter.

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

AT
 15/6

PRIME MINISTER

Yes ✓

PESC PROJECTION OF NET PAYMENTS TO EEC INSTITUTIONS

We discussed yesterday my minute of 31 May, and I agreed to consider whether we could handle the figures on a different basis for the purposes of the internal PESC report.

2. The report is now being finalised and will be circulated in about 10 days time. The only way I can see of meeting your concern would be to refer simply to the baseline figures included in the last Public Expenditure White Paper, and omit from the report any updated estimates or assumptions for our net payments. Instead of the usual separate chapter of the report on net payments to EEC Institutions, the introduction to the report would just include a single sentence saying that an updated assessment of the payments will be carried out after the June European Council. Such an assessment, when carried out, would not need to be widely circulated.

3. We shall of course need to reconsider the position after the European Council, and to take account of the prospects for our net payments in the early July Cabinet discussion of the Public Expenditure Survey position.

4. I am sending a copy of this minute to Geoffrey Howe.

N.L.

N.L.

15 June 1984

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10 DOWNING STREET

From the Private Secretary

15 June 1984

Dear Roger

EUROPEAN COMMUNITY

The Prime Minister discussed with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer this morning possible ways in which Chancellor Kohl might be encouraged to play a more positive role in seeking a fair settlement of the question of Community budget inequity in the period immediately before and at the next European Council. Sir Jock Taylor, Sir Michael Butler, Sir Crispin Tickell, Mr. Unwin and Mr. Williamson were also present.

The Prime Minister said that, particularly as the recent bilateral meeting with President Mitterrand had not given grounds for optimism about the settlement of this question, it was important to engage Chancellor Kohl's attention positively with a view to a good solution. The United Kingdom's position remained that there would be no permanent increase in the Community's own resources without a lasting system to correct the budget inequity and provide an adequate reduction in the United Kingdom's contribution. In the course of discussion it was agreed that the role of the French Presidency was vital and it was noted that the French did seem now to be re-engaged in a search for a solution. Sir Jock Taylor reported that the Germans seemed still to be waiting on some initiative by the French Presidency, although the recent British paper "Europe - the future" had been well received in Bonn and would help to improve the negotiating atmosphere.

Summing up the discussion the Prime Minister said that Sir Jock Taylor should take an early opportunity to make clear to Chancellor Kohl on her behalf that the United Kingdom would play its part in seeking a fair settlement to

/ the outstanding

Br.

the outstanding question on the correction of the budget inequity at the European Council at Fontainebleau on 25-26 June. It was essential, however, that no member state should go back on the position reached in the last European Council or try to abandon the system for correcting the budget inequity on a lasting basis. The United Kingdom would not be prepared to accept more than one ad hoc year and would be looking for a solution within the system and within the parameters (1000 million ecu - 1250 million ecu on 1983 figures) which had been under discussion on the last occasion.

There was also a discussion of the Community budget overrun in 1984, the date at which new own resources might be introduced if a satisfactory overall settlement were reached and the related question of the United Kingdom's 1984 refund. The Chancellor of the Exchequer had set out his views in his minute and note of 4 June to the Foreign and Commonwealth Secretary, and, following the discussion between them, the Foreign and Commonwealth Secretary had recorded the conclusions in his minute of 12 June to the Prime Minister.

Summing up the discussion the Prime Minister said that if specific proposals for financing the 1984 Community budget overrun were put to the United Kingdom at the Foreign Affairs Council on 18-19 June, we should reject those which were obviously unacceptable and, in any event, should state that we were willing to look at other possibilities without commitment. In no circumstances should we agree. Similarly, in relation to any specific proposal on the date at which increased own resources might take effect if there were a satisfactory overall settlement, we could agree to consider such proposals without commitment taking account of our needs on the 1984 refund.

I am copying this letter to David Peretz (HM Treasury) and David Williamson (Cabinet Office).

yes sincerely
R.B. Bone
(C.D. Powell)

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

010



CONFIDENTIAL

Qz.03778

To offer
AM

MR POWELL

EUROPEAN COMMUNITY

As promised, I attach a short draft letter recording the decisions taken at the Prime Minister's meeting this morning.

D F Williamson

D F WILLIAMSON

15 June 1984

CONFIDENTIAL

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Draft letter from Mr Powell to Mr Bone

EUROPEAN COMMUNITY

The Prime Minister discussed with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer this morning possible ways in which Chancellor Kohl might be encouraged to play a more positive role in seeking a fair settlement of the question of Community budget inequity in the period immediately before and at the next European Council. Sir Jock Taylor, Sir Michael Butler, Sir Crispin Tickell, Mr Unwin and Mr Williamson were also present.

2. The Prime Minister said that, particularly as the recent bilateral meeting with President Mitterrand had not given grounds for optimism about the settlement of this question, it was important to engage Chancellor Kohl's attention positively with a view to a good solution. The United Kingdom's position remained that there would be no permanent increase in the Community's own resources without a lasting system to correct the budget inequity and provide an adequate reduction in the United Kingdom's contribution. In the course of discussion it was agreed that the role of the French Presidency was vital and it was noted that the French did seem now to be re-engaged in a search for a solution. Sir Jock Taylor reported that the Germans seemed still to be waiting on some initiative by the French Presidency, although the recent British paper "Europe - the future" had been well received in Bonn and would help to improve the negotiating atmosphere.

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3. Summing up the discussion the Prime Minister said that Sir Jock Taylor should take an early opportunity to make clear to Chancellor Kohl on her behalf that the United Kingdom would play its part in seeking a fair settlement to the outstanding question on the correction of the budget inequity at the European Council at Fontainebleau on 25-26 June. It was essential, however, that no member state should go back on the position reached in the last European Council or try to abandon the system for correcting the budget inequity on a lasting basis. The United Kingdom would not be prepared to accept more than one ad hoc year and would be looking for a solution within the system and within the parameters (1000 million ecu - 1250 million ecu on 1983 figures) which had been under discussion on the last occasion.

4. There was also a discussion of the Community budget overrun in 1984, the date at which new own resources might be introduced if a satisfactory overall settlement were reached and the related question of the United Kingdom's 1984 refund. The Chancellor of the Exchequer had set out his views in his minute and note of 4 June to the Foreign and Commonwealth Secretary, and, following the discussion between them, the Foreign and Commonwealth Secretary had recorded the conclusions in his minute of 12 June to the Prime Minister.

5. Summing up the discussion the Prime Minister said that if specific proposals for financing the 1984

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Community budget overrun were put to the United Kingdom at the Foreign Affairs Council on 18-19 June, we should reject those which were obviously unacceptable and, in any event, should state that we were willing to look at other possibilities without commitment. In no circumstances should we agree. Similarly, in relation to any specific proposal on the date at which increased own resources might take effect if there were a satisfactory overall settlement, we could agree to consider such proposals ^{without commitment} taking account of our needs on the 1984 refund.

Q

Prime Minister

CONFIDENTIAL

Qz.03776

MR POWELL

For meeting on 21
June : but you will want
to see this week-end.

C.D.P. 15/6.

REFORM OF THE COMMUNITY'S FINANCES AND UNITED KINGDOM REFUNDS

The Prime Minister is holding a meeting of Ministers on 21 June in order to discuss the United Kingdom's negotiating position in the period immediately before the European Council and at the European Council itself. The attached paper on the state of the negotiation has been prepared, after discussion with Departments, by the European Secretariat of the Cabinet Office.

I am sending copies to Janet Lewis-Jones (Office of the Lord President of the Council), Roger Bone (FCO), David Peretz (Treasury) and to Sir Robert Armstrong.

Df Williamson

D F WILLIAMSON

14 June 1984

CONFIDENTIAL

REFORM OF THE COMMUNITY'S FINANCES AND UNITED KINGDOM REFUNDSNote by the European Secretariat, Cabinet OfficeState of the negotiations

1. Since the Stuttgart Declaration of the European Council it has been clear that agreement on the various elements of the "relaunch" of the Community (budget discipline, correction of the budget inequity, new own resources, agriculture, structural funds and new policies) depends on a complete and satisfactory settlement. In Brussels on 20 March the European Council reached a provisional agreement on the texts submitted by the French Presidency but failed to complete the following sentence on the correction of the budget inequity

"For the United Kingdom the application of the above factors to the budget figures for 1983 would have given a net correction amount of X million ecu".

The Presidency text (Annex 1) includes the main elements of the new system and does not refer to any ad hoc fixed refund for the United Kingdom, even for one year.

2. In the European Council, after Herr Kohl's original proposal of five ad hoc years of a 1000 million ecu refund with the system thereafter had been rejected, he proposed that there should be ad hoc refunds of 1000 million ecu for two years (1984 and 1985) followed by the application of the system with 1000 million ecu inserted at X in the text. Our calculations show that the 1000 million ecu base figure could have given refunds to the United Kingdom of about 1594, 1559 and 1662 million ecu for 1986, 1987 and 1988, demonstrating the dynamic effect of the system. At the European Council the Prime Minister said that the base figure to be inserted in the text should be not less than 1250 million ecu. This was not agreed. A base figure of 1250 million ecu could have given refunds of about 1902, 1884 and 2005 million ecu for 1986, 1987 and 1988.

/3.

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3. At the Foreign Affairs Council on 27 March the other member states proposed that there should be one ad hoc year (1984 refund 1000 million ecu) followed by the application of the system with the base figure of 1000 million ecu. Because of the favourable effect on the 1985 refund this offer could be worth about 939 million ecu more to the United Kingdom than the other member states' final offer at the European Council. The disagreement over the base figure, however, remained. We believe that at this Council some member states considered whether to propose a base figure of 1100 million ecu but on balance decided not to do so.

4. At the European Council both President Mitterrand and some other member states had not understood that the system would give the United Kingdom refunds markedly higher than 1000 million ecu and that it would substantially protect the United Kingdom against increases in Community expenditure, including the costs of enlargement. Subsequently they have been strongly influenced by the calculations of their Finance Ministries and have dug in more strongly on their base figure of 1000 million ecu. The French have encouraged the doubts of the Italians and others about any form of system and have tried to lead a move away from their own Presidency proposal. In the light of this, other member states may seek to reopen both the number of ad hoc years and the use of the 1983 base year. In particular, they may recall that in the last European Council they never offered less than two ad hoc years and may go back on their position in the Foreign Affairs Council of 27 March. The United Kingdom will need to fight for a single ad hoc year (1984) with the application of the system thereafter. The other member states may also try to shift the base figure off the 1983 reference year. Our task is to ensure that in reality the result of any settlement is equivalent to an acceptable compromise between 1000 and 1250 million ecu on 1983 figures. In general, it is strongly in the United Kingdom's interest to reject any backsliding from the position reached in the last European Council and the Foreign Affairs Council of 27 March.

5. There is an element of tactics in the position of other member states and also a wish to protect their own flank during the European election campaign. We believe that President Mitterrand would prefer to settle this question at the next European Council, if he thinks he can do so on terms acceptable to France. This would enable him to present the Fontainebleau European Council meeting as an unclouded "re-launch" of the Community, even though moves in our direction on financing will expose him to criticism in France. If, on the other hand, President Mitterrand does not believe that agreement can be reached on terms acceptable to France, he will try to maintain a nine to one front against the United Kingdom. This is the French "two-track" approach. If necessary, they can live for some time with the disruption of Community finances which would result from no agreement on the correction of the budget inequity, no increase in the Community's own resources and no agreement on the handling of the Community budget overrun in 1984 and 1985. In such circumstances they would make as much political capital as possible from the Franco-German "moves towards European Union" which President Mitterrand and Herr Kohl are now advocating and would blame the United Kingdom for the Community's financial difficulties. They could not, however, increase the Community's financial resources, although we can expect them to exercise considerable ingenuity in finding ways round this restriction. If the 1983 budget refunds were not paid and the United Kingdom did not withhold an equivalent sum, the Community would have available to it in 1985 the 1202 million ecu (gross) entered in the 1984 budget for this purpose.

Community and foreign policy implications

6. The decisions at the next European Council will have significant implications for the United Kingdom's Community and foreign policy -

(i) no agreement on Community finances or UK refunds.

There would be a lot of rhetoric and some real hostility to the United Kingdom. It would be unwise to assume that it will be easier to reach agreement in the autumn. In the interim France and Germany might try to press ahead strongly with various ideas for cooperation which they would present as if they represented important steps

towards greater political unity in the Europe of the Six. We doubt whether in the short term at least attempts to move ahead without the United Kingdom would get very far. Nor is it likely that the United Kingdom would be excluded from discussion of any measures which went wider than bilateral Franco/German understandings. It should be our objective to play a full part in examining such measures and, where appropriate, to propose our own ideas. The other member states are already showing the first signs of resentment at a possible Franco/German hijack.

Since there would be no increase in the Community's own resources and no agreement on special measures to finance the Community 1984 and 1985 budget overruns, other member states would be forced to at least a temporary element of national financing. The most likely sequence would be that the Commission would run out of money in October this year and would cease to make the normal monthly advances to member states which fund the payments to farmers and traders. If so, member states would make the payments and reclaim them from the Community budget in January 1985. If the same pattern were repeated in 1985, the Commission could run out of money earlier in the year even if the sum earmarked for the United Kingdom's 1983 refunds were at their disposal. This would impose a substantial, short term financing burden on member states which would be very unwelcome to most of them. If there were a period of temporary national financing, we should be paying only about 13 per cent compared with about 20 per cent under Community budget financing. Other member states would no doubt put strong pressure on the Commission to propose supplementary budgets or to ask for advances above the level of the ceiling on the Community's own resources. Both these actions are in our view clearly illegal but we cannot rule them out in the political circumstances foreseen.

The absence of more financial resources for the Community would have repercussions on the enlargement negotiations. Although the United Kingdom would claim that the negotiations

should continue to completion in the expectation of a satisfactory budget settlement, the French in particular might take the opportunity to block the negotiations altogether while seeking to pin the blame for the blockage on us. This in turn would make it much more difficult for the Spanish Government to launch and succeed in a referendum on Spanish membership of NATO.

We believe that on the basic question of a long term reform of the Community finances and the United Kingdom refunds, the other member states would in due course return to the negotiating table. On the assumption that the 1983 refund of 750 million ecu had not been paid, however, the United Kingdom Government would need to decide at the end of 1984 whether it would take countervailing action by withholding Community funds.

(ii) a settlement at the June European Council. There would no doubt be continuing arguments about the details of the mechanism to correct the budget inequity and about the implementation of budget discipline, because there would be no final agreement on the submission of the package to governments and national parliaments for ratification until we were fully satisfied on the legal texts. In general, however, a fair and defensible settlement at the European Council of the reformed financing system to be included in a revised Own Resources Decision would achieve some change in the balance of power in the Community. The policy of the United Kingdom, as a continuing net contributor, to make Community policies more cost-effective and more useful for Britain would continue unchanged but our hand in negotiations on the whole range of Community subjects would be stronger. We would be freed from the particular blockage and blackmail associated with our need for ad hoc refunds. We could forge more effective alliances, particularly with France and Germany as net contributors.

/7.

The public expenditure consequences

7. Any settlement reached at Fontainebleau would have adverse public expenditure consequences compared with the figures published in the last public expenditure White Paper, Cmnd 9143. The 1984 refund of 1000 million ecu provisionally agreed at Brussels is less than the figure assumed for public expenditure purposes which was based on the stylised assumption that we would receive budget refunds equivalent to some two-thirds of our net contribution to the Community's allocated budget. In addition, if future refunds are implemented (as we wish ourselves) by abatement of our VAT contribution, this could give a delay of a few months. This would affect the financial year costings, particularly in respect of 1984-5 and 1985-6. Thus, with the system based on a 1250 million ecu refund from 1985 onwards, our net payments to Community institutions could be of the order of £650 million, £925 million and £500 million in 1984-5, 1985-6 and 1986-7 compared with £375 million, £550 million and £600 million in the public expenditure White Paper. With a system based on a smaller notional 1983 refund, the public expenditure additions would be greater (about £100 million a year if the settlement were based on 1100 million ecu).

8. On the other hand, if no agreement were reached at Fontainebleau, the public expenditure consequences would also be substantial, depending on whether the United Kingdom continued to pay its full contribution. If the United Kingdom continued to pay its contribution and received no further refunds, the United Kingdom's net payments to Community institutions over the next few years (assuming the 1 per cent VAT ceiling remained in place) could be of the order of £1300-£1700 million a year.

Basis of the settlement

9. The Prime Minister has indicated to President Mitterrand and Herr Kohl that, if it would clinch a settlement and not give rise to further bargaining, the United Kingdom would be prepared to move, although the margin for manoeuvre is small.

/Herr Kohl

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Herr Kohl has shown some flexibility in response and has recently made clear on the record that, if a settlement is to be reached, movement will be needed by both sides. Thus the area within which an agreement can be reached is now quite clearly defined. The difficulty of restarting the negotiation is considerable, but it appears that the French are now ready to relaunch the dialogue. The negotiating situation, which is illustrated by figures in annexes 2 - 5 (all the figures are on the so-called payments basis, which it is in our interest to obtain) may be as follows -

either

(i) settlement of the "base figure". The simplest solution would be to carry on where we left off and to get a settlement on the basis of one ad hoc year (1984 refund 1000 million ecu) and as high a base figure as possible between 1000 and 1250 million ecu to be inserted in place of X in the Presidency text. The United Kingdom's objectives should clearly be the highest negotiable figure (which gives us the best protection in the long term) and the earliest negotiable start to the system (which gives us substantial extra money in the short term). This second point should not be underrated. It is worth noting that one ad hoc year at 1000 million ecu and a base figure of 1100 million ecu in place of X in the Presidency text would be more favourable to the United Kingdom over the next five years than two ad hoc years at 1000 million ecu and a base figure of 1250 million ecu. It would not be until about 1990 that the cumulative refunds under a system based on 1250 million ecu with two ad hoc years would exceed the refunds under a system based on 1100 million ecu with one ad hoc year;

or

(ii) fixing the threshold and the compensation rate. If the system in the Presidency text is to be adopted, it will be necessary at some stage to fix the threshold and the percentage compensation above the threshold. It would be consistent with the Presidency text to have a single threshold and a single compensation rate above it, which would of course vary with relative prosperity. For the United Kingdom a solution which fixed now the

threshold and rate of compensation above the threshold would have the advantage of cutting out potential later argument. For other member states it would have the advantage that they could move above the figure of 1000 million ecu without making this too apparent to their public opinion. In negotiation we should have to keep the base figure on the table because it is this figure which constrains the freedom of manoeuvre of other member states to propose an unacceptably high rate of United Kingdom contribution above the threshold. The United Kingdom's objective must be:

- to have only one ad hoc year before the system is put into effect;
- to seek the lowest possible United Kingdom rate of contribution (highest possible rate of compensation) above the threshold.

Monsieur Davignon suggested a more complicated version of this approach. Under it, the system would be described in terms of a threshold and two compensation rates, with the switch to higher compensation rate taking place at a step point set in terms of gross domestic product.

Provided that the result is a real compromise between 1000 million ecu and 1250 million ecu (preferably biased in our favour) and provided that the decision on the threshold and percentage contribution above the threshold is constrained by the resulting figure, the other variations between different formulations are not so significant. For example, the "improved Davignon formula" (illustrated at (b) in Annex 4A) would give the United Kingdom an average refund over the period 1985-88 which represents 63 per cent of the total unadjusted net contribution; the "1100 million ecu notional figure formula" with a threshold of 0.05% of gross domestic product and a compensation rate of 80 per cent above the threshold would give the United Kingdom an average refund over the period 1985-88 which represents 62 per cent of the total unadjusted net contribution; and the least favourable version of the "1100 million ecu notional figure formula" would still give

over the same period an average refund equivalent to 61 per cent of the total unadjusted net contribution. For practical purposes we can assume that within these constraints the United Kingdom would be contributing not less than 2 per cent and not more than 6 per cent of any increases in Community expenditure (ie between 10 and 30 per cent of our normal contribution).

or

(iii) a straight percentage of the VAT share/expenditure share gap. The French and other member states may present the proposal that the system should be operated to give the United Kingdom a straight-forward two-thirds rebate on the whole of the VAT share/expenditure share gap. This would yield an inadequate refund on the whole gap. A 75 per cent rebate of the VAT share/expenditure share gap would give the United Kingdom refunds equivalent to about 66.5 per cent of our unadjusted net contribution over the period 1985-88. A 70 per cent rebate would give us refunds equivalent to about 62 per cent of our unadjusted net contribution over the same period. The marginal rate of compensation would be lower than for the other solutions discussed, leaving the United Kingdom more vulnerable to surges in Community expenditure if budgetary discipline is less effective than we hope. Even so, under a scheme of this sort, the United Kingdom's marginal contribution to additional expenditure would be 25 per cent or 30 per cent of our normal contribution.

If a proposition of this sort is advanced we should respond by saying that the system has been the product of a long and hard negotiation, and that we are looking for an agreement on the basis of the system in the Presidency text either by setting a notional figure or the rate of compensation and the threshold.

/10.

Basis of the figures

10. This paper, and the figures in the annexes, assume that VAT is measured on a payments basis, representing the actual amount of VAT own resources paid over to the Commission in the year in question. This amount will include corrections and adjustments in respect of earlier years. The alternative assiette basis attributes these adjustments back to the year to which they relate. The payments basis is to be preferred, mainly because it would ensure that the prospective large VAT adjustments to be paid in 1985 in respect of 1984 would qualify for refund under the system on the assumption that we obtain no more than one ad hoc year. On an assiette basis these adjustments would be attributed to 1984 and so would not qualify for refund. This could make a massive difference (up to 450 million ecu) to our 1985 refund. There are also technical arguments for a payments basis, although the Commission favour an assiette basis, also for technical reasons. We can support our case by recalling that discussion at the March European Council was on a payments basis (the 1622 million ecu VAT/expenditure share gap in 1983, a figure which we should maintain).

Budget discipline

11. Agreement on an effective and binding system of budgetary discipline, especially for agricultural expenditure, is an essential part of the package, without which we have refused to consider any increase in own resources. Discussion on the implementation of the arrangements provisionally agreed in the Presidency text at Brussels has been carried forward in the ECOFIN Council and a high level official group. Although there is still a long way to go to secure our objectives of making the arrangements for budgetary discipline effective and legally binding, we have managed to keep open all options including Treaty amendment. For Fontainebleau, it should be sufficient to note the progress which has been made in these discussions and encourage them to continue to examine all options for making budgetary discipline effective and binding with a view to securing agreement on detailed texts on budget discipline at the same time as agreement on the detailed texts on own resources and imbalances. The United Kingdom will need to make clear that the current text needs a considerable amount of

/further

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further work in order to be turned into a satisfactory implementing text, and that we expect the implementing text to be completed and come to Governments for approval at the same time as the other texts arising from agreement in the negotiations. We should not allow others the opportunity to water down the existing text.

Conclusion

12. At the Fontainebleau European Council on 25-26 June the United Kingdom should seek -

- (i) agreement on a system for correcting the budget inequity, which will form part of the revised Decision on Own Resources, the correction being effected by deduction from the normal share of VAT (Presidency text satisfactory on these points);
- (ii) not more than one ad hoc year at 1000 million ecu, with application of the new system thereafter;
- (iii) a base figure for the new system (ie the figure to replace X in the Presidency text) which is an acceptable compromise between 1250 million ecu and 1000 million ecu. If the settlement is expressed not in terms of this figure but in terms of the threshold and rate of compensation above the threshold the result must give figures which are equivalent to an acceptable compromise between 1250 million ecu and 1000 million ecu in 1983. Ministers will wish to consider whether they would be prepared, if other member states made such an offer, to accept a system giving an acceptable result in 1983 which was based on a straight percentage of the VAT share/expenditure share gap with no threshold;
- (iv) agreement that work should continue on budget discipline with a view to having a satisfactory implementing text presented for approval at the same time as the detailed texts on budget imbalances and own resources.

PRESIDENCY TEXT OF 20 MARCH 1984 ON BUDGETARY IMBALANCES

Control of expenditure and rebalancing of the budget constitute in the long term the essential means for resolving the problem of budgetary imbalances.

However, pursuant to the Stuttgart Declaration, any Member State which bears an excessive budgetary burden in relation to its relative prosperity may benefit from a correction at the appropriate time.

The arrangements for the correction will be adopted by the Council of Ministers before June taking account of the following factors:

- the basis for correction is the gap between the VAT share and the share in expenditure allocated in accordance with present criteria.

A part of the administrative expenditure will be charged to each Member State in accordance with the present formula.

- correction will only occur beyond a certain threshold, to be determined, which will be expressed as a percentage of absolute GDP. This percentage will vary as a function of relative prosperity as indicated by per capita GDP in a Community of 12; the rate of correction beyond the above-mentioned threshold will vary in inverse proportion to relative prosperity;

accordingly, a Member State benefiting from compensation will bear a percentage of the additional cost arising from the increase in the basis of the correction, including the expenditure linked to enlargement;

- the correction will be deducted from the normal share of VAT of the Member State concerned in the budget year following that in respect of which the correction has been made; the resulting burden for the other Member States will be allocated according to their normal share of VAT;

- the above correction mechanism will form part of the decision on new own resources, their durations being linked.

One year before the new ceiling is reached, the Commission will submit a report on the results of budgetary discipline, the Community's financial requirements and the operation of the correction mechanism. The Council will take the necessary steps to ensure the continuity of the Community's financial system.

For the United Kingdom the application of the above factors to the budget figures for 1983 would have given a net correction amount of X million ECU; for 1984 this correction will be fixed by advance application of the correction arrangements to be applied from 1986. It will be paid in 1985 in accordance with procedures to be determined which will not affect the level of Community expenditure.

SYSTEMS WITH A THRESHOLD AND A SINGLE RATE OF COMPENSATION

I. SYSTEM BASED ON BASE FIGURE FOR REFUND OF 1250 MILLION ECU90% Compensation rate (threshold of 0.045% of GDP or 230 million ecu in 1983)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	579	2230	79
1986	878	1902	68
1987	908	1884	67
1988	971	2005	67
Average			
1985-88			71

II. SYSTEM BASED ON BASE FIGURE FOR REFUND OF 1000 MILLION ECU90% Compensation rate (threshold of 0.1 per cent of GDP or 510 million ecu
in 1983)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	870	1939	69
1986	1186	1594	57
1987	1233	1559	56
1988	1314	1662	56
Average			
1985-88			59

I. REFUND OF 1150 million ecu(a) Threshold 250 million ecu (consequential compensation rate: 84.2%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	748	2061	73
1986	1027	1753	63
1987	1057	1735	62
1988	1127	1849	62
Average			
1985-88			65

(b) Threshold 200 million ecu (consequential compensation rate 81.2%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	773	2036	72
1986	1038	1742	63
1987	1066	1726	62
1988	1139	1837	62
Average			
1985-88			65

(c) Threshold 100 million ecu (consequential compensation rate: 75.6%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	825	1984	71
1986	1064	1716	62
1987	1085	1707	61
1988	1160	1816	61
Average			
1985-88			64

ANNEX 3 (Continued)

II REFUND OF 1125 million ecu(a) Threshold. 250 million ecu (consequential compensation rate: 82.4%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	792	2017	72
1986	1064	1716	62
1987	1095	1697	61
1988	1169	1807	61
Average 1985-88			64

(b) Threshold. 200 million ecu (consequential compensation rate: 79.4%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	819	1990	71 →
1986	1077	1703	61
1987	1104	1688	60
1988	1180	1796	60
Average 1985-88			<u>63</u>

(c) Threshold. 100 million ecu (consequential compensation rate: 74.0%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	867	1942	69
1986	1100	1680	60
1987	1121	1671	60
1988	1199	1777	60
Average 1985-88			62

III REFUND OF 1100 MILLION ECU(a) Threshold: 250 million ecu (consequential compensation rate: 80.5%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	839	1970	70
1986	1104	1676	60
1987	1134	1658	59
1988	1211	1765	59
Average 1985-88			62

(b) Threshold: 200 million ecu (consequential compensation rate: 77.6%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	864	1945	69
1986	1116	1664	60
1987	1142	1650	59
1988	1221	1755	59
Average 1985-88			62

(c) Threshold: 100 million ecu (consequential compensation rate: 72.4%)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	909	1900	68
1986	1137	1643	59
1987	1157	1635	59
1988	1237	1739	58
Average 1985-88			61

SYSTEMS GIVING REFUNDS OF 1150, 1125 AND 1100 MILLION ECU WITH A 90% COMPENSATION RATE

(a) 1150 million ecu (consequential threshold: 345 million ecu)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	699	2110	75
1986	1004	1776	64
1987	1041	1751	63
1988	1112	1864	63
Average			
1985-88			66

(b) 1125 million ecu (consequential threshold: 372 million ecu)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	728	2081	74
1986	1036	1744	63
1987	1075	1717	62
1988	1147	1829	61
Average			
1985-88			65

(c) 1100 million ecu (consequential threshold: 400 million ecu)

	Adjusted net contribution	Refund	Refund as percentage of unadjusted net contribution
1985	756	2053	73
1986	1065	1715	62
1987	1105	1687	60
1988	1179	1797	60
Average			
1985-88			64

SYSTEMS WITH A THRESHOLD AND TWO RATES OF COMPENSATION (DAVIGNON-TYPE SCHEMES)

- (a) BASIC DAVIGNON-GIVING REFUND OF 1052 IN BASE YEAR (1983) (threshold of 0.05% of GDP or about 250 million ecu in 1983, with compensation rate of 77% up to 0.4% of GDP and 90% thereafter)

	ANC	Refund	Refund as % of UNC
1985	875	1934	69
1986	1177	1603	58
1987	1206	1586	57
1988	1287	1689	57
Average			
1985-88			60

- (b) IMPROVED DAVIGNON-GIVING REFUND OF 1093 IN BASE YEAR (1983)
with threshold of 0.05% of GDP or about 250 million ecu in 1983,
with compensation rate of 80% up to 0.35% of GDP and 90% thereafter)

	ANC	Refund	Refund as % of UNC
1985	784	2025	72
1986	1094	1686	61
1987	1136	1656	59
1988	1211	1765	59
Average			
1985-88			63

SYSTEMS, WITH A SINGLE RATE OF COMPENSATION AND NO THRESHOLD

(a) Compensation of 75 PER CENT of the VAT share/expenditure gap

	ANC	<i>Refund</i> Threshold	Refund as % of UNC
1985	752	2057	73
1986	984	1796	65
1987	1000	1792	64
1988	1070	1906	64
Average			
1985-88			66

(b) Compensation of 70 PER CENT of the VAT share/expenditure gap

	ANC	<i>Refund</i> Threshold	Refund as % of UNC
1985	889	1920	68
1986	1104	1676	60
1987	1119	1673	60
1988	1197	1779	60
Average			
1985-88			62

I. WHAT A STRAIGHT PERCENTAGE REFUND MEANS?

- (a) By comparison with the 1000 mecu (position of the Nine) and 1250 mecu (UK position) on 1983 figures it means

% of VAT share/ expenditure share gap (1622 mecu on payments basis)	mecu
70	1135
69	1119
68	1103
67	1087
66.66	1081
65	1054

- (b) The average return on the UK's full unadjusted net contribution over the period 1985-88 given by the straight percentage refund is estimated to be

% of VAT share/ expenditure gap	% of the full unadjusted net contribution
70	62
68	60
66.66	59

III. ADJUSTED NET CONTRIBUTION IN REAL TERMS

If there were a settlement on an 1125 mecu refund on 1983 figures (II(b) in annex 3 to the paper of 14 June), the estimated United Kingdom adjusted net contribution to the Community in real terms (deflated to 1983 prices) would be as follows -

	Adjusted net contribution, mecu
1983	1163
1984	1011 (ad hoc year)
1985	739 (advent of the system)
1986	935
1987	926
1988	956

ES/RENY
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MR. G. TIBBELL
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MR. NEWBICK.

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~~SECRET OFFICE~~
MR. D. FRITZMANSON
MR. G. STEPHENSON
~~MR. J. G. TIBBELL~~
MR. D. C. DUNN
MR. T. BARR

~~MR. J. B. LINDEN~~
~~MR. J. G. TIBBELL~~
MR. J. E. MORTIMER
MR. G. W. HOPKINSON
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FM BONN 141550Z JUN 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 585 OF 14 JUNE
INFO IMMEDIATE UKREP BRUSSELS, PARIS, ATHENS, EMBASSY BRUSSELS,
COPENHAGEN, DUBLIN, LUXEMBOURG, ROME, THE HAGUE

YOUR TELNO 218 TO ATHENS: PAPER ON THE FUTURE OF EUROPE

1. I CALLED ON TELTSCHIK (THE CHANCELLOR'S DIPLOMATIC ADVISER) THIS MORNING AND WENT THROUGH OUR PAPER WITH HIM.
2. TELTSCHIK HAD EVIDENTLY READ THE PAPER WITH CARE. HE TOLD ME THAT THE SUMMARY HAD BEEN PREPARED AND SUBMITTED TO THE CHANCELLOR BUT DID NOT THINK THE CHANCELLOR HAD YET READ IT BECAUSE OF HIS PREOCCUPATION WITH THE ELECTION CAMPAIGN FOR THE EUROPEAN PARLIAMENT.
3. TELTSCHIK SAID THAT THE GERMAN GOVERNMENT WELCOMED GREATLY THE FACT THAT HMG HAD PREPARED SUCH A PAPER. THAT IT HAD BEEN HANDED OVER BY THE HEAD OF GOVERNMENT WAS OF SIGNIFICANCE. THE PAPER PROVED THAT THE BRITISH GOVERNMENT WERE CONCERNED WITH THE FURTHER DEVELOPMENT OF THE COMMUNITY. THAT WAS ENCOURAGING. IF PROGRESS COULD BE MADE TOWARDS SOLVING THE PROBLEM OF BUDGETARY IMBALANCES BEFORE FONTAINEBLEAU IT OUGHT TO BE POSSIBLE TO HAVE A GOOD DISCUSSION ABOUT FUTURE DEVELOPMENTS IN THE COMMUNITY BUT HE DOUBTED THAT THE COUNCIL WOULD BE ABLE TO GO FURTHER THAN TO TAKE PROCEDURAL DECISIONS, E.G. THAT A STUDY GROUP SHOULD BE FORMED TO EXAMINE SOME OF THE QUESTIONS ARISING FROM THE NEED TO DEVELOP THE COMMUNITY FURTHER.
4. ON THE PAPER ITSELF, TELTSCHIK SAID THAT ITS APPROACH WAS HIGHLY PRAGMATIC, BUT HE ACKNOWLEDGED THAT THERE WAS NO OTHER WAY TO BUILD UP THE COMMUNITY. THE GERMANS UNDERSTOOD AS WELL AS EVERYONE ELSE THAT THE UNITED STATES OF EUROPE COULD NOT BE PUT IN PLACE TOMORROW. WHAT THEY ATTACHED IMPORTANCE TO WAS THAT THE MOMENTUM TOWARDS EVENTUAL UNION SHOULD BE MAINTAINED. TELTSCHIK SAID THAT

TOMORROW. WHAT THEY ATTACHED IMPORTANCE TO WAS THAT THE MOMENTUM TOWARDS EVENTUAL UNION SHOULD BE MAINTAINED. TELTSCHIK SAID THAT HE NOTED WITH SATISFACTION THAT IN NUMEROUS AREAS OUR PAPER APPROVED SENSIBLY FOR STRENGTHENING THE EUROPEAN ENTITY. THIS WAS PARTICULARLY SO IN THE FIELDS OF FOREIGN POLICY AND DEFENCE. THIS ALL WENT VERY MUCH IN THE RIGHT DIRECTION.

5. TELTSCHIK SAID THAT OUR IDEAS ON A MORE FLEXIBLE COMMUNITY CORRESPONDED TO THOSE OF THE GERMANS WHO, LIKE US, ALSO ATTACHED THE FIRST IMPORTANCE TO THE ACHIEVEMENT OF A REAL INTERNAL MARKET. ACTION ON STANDARDS AND CUSTOMS ARRANGEMENTS AND TO ENABLE EUROPEAN FIRMS TO COLLABORATE TOGETHER WERE ALL URGENT AND NECESSARY.

6. AS REGARDS WEU, TELTSCHIK SAID THAT HE PERSONALLY WAS RATHER HESITANT. HE DID NOT THINK THE MATTER HAD BEEN PROPERLY THOUGHT THROUGH EITHER BY THE AUSWAERTIGES AMT OR BY THE FRENCH. CHANCELLOR KOHL HAD NEVER DISCUSSED THE QUESTION WITH MITTERRAND. WEU MIGHT STRENGTHEN THE EUROPEAN PILLAR OF THE ATLANTIC COMMUNITY, BUT HOW IT COULD DO SO WAS BY NOT YET EVIDENT.

7. IN ANSWER TO MY QUESTION, TELTSCHIK SAID THAT HE THOUGHT THE WEAKEST PART OF THE PAPER WAS THAT DEALING WITH THE EUROPEAN PARLIAMENT. IT SEEMED TO THE GERMANS THAT IT WAS NOT POSSIBLE TO DENY INDEFINITELY MORE POWER TO A DIRECTLY ELECTED ASSEMBLY. BUT HE ACKNOWLEDGED THAT WE WERE BY NO MEANS THE ONLY MEMBER OF THE COMMUNITY WHO DID NOT REGARD THE CEDING OF GREATER POWERS TO THE PARLIAMENT AS AN URGENT PRIORITY. HE ALSO, PREDICTABLY, SAID THAT IN RELATION TO THE POLITICAL DEVELOPMENT OF EUROPE THE PAPER DID NOT GO AS FAR AS THE GERMANS WOULD WANT. BUT THE GERMANS WERE PROBABLY AHEAD OF THE REST OF THE MEMBERSHIP IN THIS AREA TOO. HE SAID THAT THE GERMANS HAD HAD NO CONCRETE IDEAS FROM PRESIDENT MITTERRAND ABOUT HOW EUROPEAN UNION COULD BE PURSUED. HE ALSO THOUGHT OUR SUGGESTION THAT THE PRESIDENCY SHOULD START WITH A "SPEECH FROM THE THRONE" VERY GOOD AND WAS INTERESTED IN THE MOTION THAT BLOCKED DOSSIERS SHOULD BE WEEDED OUT. THE SUGGESTION FOR STRENGTHENING THE PRESIDENCY AND PROVIDING CONTINUITY BETWEEN PRESIDENCIES WAS ONE HE ALSO WARMLY WELCOMED. HOWEVER, AS WAS TO BE EXPECTED, HE REPEATED GERMAN OPPOSITION TO THE IDEA REDUCING THE NUMBER OF COMMISSIONERS. THE GERMANS TOOK THE ARGUMENT ABOUT ATTRACTING BETTER PEOPLE BUT THEIR CONCERN WAS THAT IN A COMMUNITY OF 12, FIVE OF THE COMMISSIONERS WOULD BE REPRESENTING MEDITERRANEAN INTERESTS THAT COULD GIVE THE NORTHERN COUNTRIES, PARTICULARLY THOSE PAYING THE BILLS, CONSIDERABLE DIFFICULTY. HE ADDED THAT WHEN OWN RESOURCES WERE INCREASED AND IDEAS SUCH AS THOSE IN OUR PAPER WERE BEING IMPLEMENTED, THE JOBS OF THE COMMISSIONERS WOULD INEVITABLY GROW AND THE MEMBER GOVERNMENTS WOULD HAVE AN INCREASING INTEREST IN MAKING THAT THE COMMISSIONERS REPRESENTING THEM WERE UP TO THE JOB.

COMMENT

THIS INITIAL RESPONSE, FROM A KEY SENIOR OFFICIAL, IS ENCOURAGING
I WOULD EXPECT OTHER SENIOR OFFICIALS IN THE GERMAN ADMINISTRATION
MORE CONVERSANT WITH THE NITTY GRITTY OF THE COMMUNITY TO RESPOND
EVEN MORE ENTHUSIASTICALLY. SEE MY TELNO 587 FOR AN EXAMPLE. WE
MUST NOW HOPE THAT OUR MESSAGE ON THE FUTURE OF EUROPE GETS
THROUGH TO KOHL IN TIME FOR FONTAINEBLEAU.

9. SEE MY TWO IMMEDIATELY FOLLOWING TELEGRAMS.

FCO PLEASE ADVANCE TO:
CABINET OFFICE: WILLIAMSON, DURIE
FCO: TICKELL, RENWICK, FAIRWEATHER
TREASURY: UNWIN, FITCHEW

TAYLOR

400 400 0151
IMMEDIATE

ES/REAU
SIP G TIEGILL
MR NEWICK.

RESIDENT OFFICE
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SECRET OFFICE
MR D FRITANSON
MR G STEPHENSON
MR D R C DURIE
MR T T BARR

DOT

PLUS GO
MAY 1984

MR J B UNWIN
MR J G LITTLE
MR J E MORTIMER
MR G. HOPKINSON
MR FITCHER

MAFF
MR ANDREWS
MR ATTWOOD

copy
might be worth checking that the 10 have actually had these.

12/8

GRS 750
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FRAME ECONOMIC
FM BONN 141730Z JUN 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 587 OF 14 JUNE
INFO IMMEDIATE UKREP BRUSSELS, ATHENS, EMBASSY BRUSSELS, DUBLIN, COPENHAGEN, LUXEMBOURG, PARIS, ROME, THE HAGUE

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SEE MY TWO IMMEDIATELY PRECEDING TELEGRAMS
THE RUN-UP TO FONTAINEBLEAU: BUDGETARY IMBALANCES

1. IN DISCUSSION TODAY WITH MINISTER (ECONOMIC) GRIMM (KANZLERAMT) SAID THAT HE COULD NOT DECIDE WHAT TO EXPECT OF THE FRENCH PRESIDENCY AT FONTAINEBLEAU ON THE PROBLEM OF BUDGETARY IMBALANCES. THERE HAD BEEN MUCH CONTACT WITH THE FRENCH AT OFFICIAL LEVEL IN RECENT WEEKS, BUT NO CLEAR OR ACCEPTABLE IDEAS EMERGING FROM PARIS. THE GERMANS HAD HEARD OF ONE FRENCH PROPOSAL, (WHICH MIGHT HAVE BEEN FLOATED WITH THE BRITISH) WHICH WAS UNACCEPTABLE TO BONN. HE SIMPLY COULD NOT JUDGE WHAT THE FRENCH ARE AIMING FOR, UNLESS IT IS AN ARRANGEMENT WITHOUT ANY CLEAR SYSTEM WHERE THE GERMANS WOULD FOOT THE BILL. THE FRENCH APPEARED TO BE REGRETTING THEIR WILLINGNESS IN MARCH TO AGREE A SYSTEM AND WERE PERHAPS WORKING FOR ARRANGEMENTS SO COMPLEX THAT ANY SYSTEM WOULD BE LOST TO SIGHT. HOWEVER THE GERMANS WERE NOT PREPARED TO PAY UP WITHOUT LIMIT, AND INDEED COULD NOT SELL ANY SUCH SOLUTION TO A GERMAN PUBLIC OPINION WHICH WAS ALREADY CRITICAL OF THE COST OF THE MEASURES SO FAR AGREED.

2. GRIMM SAID THE CHANCELLOR WANTED A SETTLEMENT AT FONTAINEBLEAU WHICH WOULD BE FAIR TO GERMANY AND TO THE UK AND WHICH COULD BE JUSTIFIED TO THE GERMAN ELECTORATE. GRIMM WAS NOW INTENT ON FOCUSING THE CHANCELLOR'S MIND ON POSSIBLE SOLUTIONS BASED ON THE SYSTEM OUTLINED IN MARCH, OR A SIMPLIFIED VERSION OF IT. WORK WAS GOING ON IN BONN WHICH WOULD COVER ANYTHING FROM A SYSTEM FOR IMMEDIATE IMPLEMENTATION TO ONE WITH A TWO-YEAR RUN IN PERIOD AND A FULL SYSTEM STARTING IN 1986. FIGURES BASED ON DIFFERENT THRESHOLDS AND COEFFICIENTS WERE BEING WORKED OUT AND DISCUSSION BASED ON THESE RESULTS WOULD START TOMORROW. IF THERE WAS TIME,

THRESHOLDS AND COEFFICIENTS WERE BEING WORKED OUT AND DISCUSSION BASED ON THESE RESULTS WOULD START TOMORROW. IF THERE WAS TIME, AND THE CHANCELLOR AGREED, THE GERMANS WOULD THEN DISCUSS THEIR IDEAS WITH THE FRENCH. IF THEIR REACTION WAS NOT TOO DISCOURAGING THEY WOULD THEN TALK TO THE BRITISH. BUT THERE WAS NO QUESTION OF PRESSING A GERMAN PROPOSAL BEFORE FONTAINEBLEAU. THE CHANCELLOR SIMPLY NEEDED TO BE PREPARED WITH A REALISTIC PROPOSITION IN HIS POCKET FOR USE IN CASE THE PRESIDENCY PUT FORWARD A "MUDDLED AND UNACCEPTABLE" PROPOSAL. GRIMM OBSERVED THAT THE PRESIDENCY AND THE COMMISSION HAD THE RESPONSIBILITY FOR PROPOSING A SOLUTION. IT WAS NOT FOR THE GERMANS TO DO THEIR WORK AND "VOLUNTEER TO PAY MORE". THEY WOULD ONLY INTERVENE IF OTHERS FAILED TO PLAY THEIR PART, OR WERE MAKING PROPOSALS UNACCEPTABLE TO BONN.

3. AT THE START OF THIS DISCUSSION MINISTER (ECONOMIC) HAD REITERATED HMG'S WISH TO SEE A SETTLEMENT ON FONTAINEBLEAU AND READINESS TO MOVE WITHIN REASONABLE LIMITS IN ORDER TO ACHIEVE AGREEMENT. GRIMM SHOWED THAT HE FULLY UNDERSTOOD THE BRITISH POSITION, AND AT NO STAGE ATTEMPTED TO SUGGEST THAT A SETTLEMENT AT FONTAINEBLEAU MIGHT BE JEOPARDISED BY BRITISH INFLEXIBILITY. HE IMPLIED THAT ANY POSSIBLE GERMAN PROPOSAL WOULD MEET KNOWN BRITISH NEEDS. HIS ATTENTION WAS FOCUSED ON FEARS OF FRENCH TACTICS AT FONTAINEBLEAU AND THE NEED FOR THE CHANCELLOR TO HAVE A DEFENSIVE ALTERNATIVE WHICH HE COULD USE.

4. GRIMM POINTED OUT THAT THIS PROGRAMME WILL BE DIFFICULT TO ACHIEVE IN THE TIME NOW AVAILABLE. WORK ON THE GERMAN PROPOSALS IS NOT YET COMPLETE. HE MUST BE IN BERLIN ON 19 AND 20 JUNE AND THEN ACCOMPANIES THE CHANCELLOR TO HUNGARY FROM 21-23 JUNE.

5. GRIMM IS NORMALLY VERY RESERVED ABOUT WHAT HE SEES AS AN OBSSIVE PREOCCUPATION WITH THE PARIS/BONN ACCESS IN SOME QUARTERS AND SCEPTICAL ABOUT ITS SERVICE TO LONGER TERM GERMAN INTERESTS. HIS CRITICAL TONE WHEN DISCUSSING FRENCH OBJECTIVES WAS NOT THEREFORE SURPRISING. WHAT WAS NEW THROUGHOUT THE CONVERSATION WAS THAT GRIMM WAS MORE CONFIDENT AND ENGAGED THAN HE HAS BEEN FOR SEVERAL MONTHS. THE USUAL SAD REFERENCES TO THE INACCESSIBILITY OF THE CHANCELLOR WERE ABSENT. HE RADIATED SATISFACTION THAT HE, GRIMM, HAD GOT GERMAN THINKING "ON THE MOVE" ON THE BUDGET QUESTION AND CLEARLY EXPECTS TO HAVE DIRECT INFLUENCE ON THE CHANCELLOR'S THINKING.

6. THE ABSENCE OF ANY CRITICAL COMMENT ON THE BRITISH POSITION WAS PERHAPS HELPED BY GRIMM'S GENUINE ADMIRATION FOR THE PAPER ON EUROPE MRS THATCHER HANDED TO THE CHANCELLOR LAST WEEK. HE WAS WARM IN HIS PRAISE OF THE PAPER'S APPROACH, THE FIRST OF SUCH A KIND FROM ANY HEAD OF GOVERNMENT. HE COMMENTED THAT IT HAS REAL SUBSTANCE "NOT JUST FANCY WRAPPING: ALL WE HAVE HAD SO FAR FROM PRESIDENT MITTERRAND IS FANCY WRAPPING".

FCO PLEASE ADVANCE TO:
CAB OFFICE: WILLIAMSON, DURIE
FCO: TICKELL, RENWICK, FAIRWEATHER
TSY: UNWIN, FITCHEW
MAFF: ANDREWS, MRS ATTRIDGE

TAYLOR

RESTRICTED

GPS 150
RESTRICTED
FRAME ECONOMIC
FM UKREP BRUSSELS 131912Z JUN 84
TO PRIORITY FCO
TELEGRAM NUMBER 2043 OF 13 JUNE 1984.

BUDGET COMMITTEE: 13 JUNE
1985 PRELIMINARY DRAFT BUDGET

1. IN A PRELIMINARY DISCUSSION, GERMAN, FRENCH, UK AND NETHERLANDS DELEGATIONS SAID THAT THE 1985 BUDGET SHOULD BE ESTABLISHED WITHIN THE EXISTING CEILING FOR OWN RESOURCES. BELGIAN DELEGATION INDICATED THAT CURRENT REGULATIONS SHOULD BE ADHERED TO. ITALIAN AND GREEK DELEGATIONS SAID EXPENDITURE REQUIREMENTS SHOULD BE THE DETERMINING FACTOR. OTHER DELEGATIONS DID NOT EXPRESS A VIEW.

2. VAN CRAEYENEST (COUNCIL LEGAL SERVICES) SAID ON A PERSONAL BASIS THAT UNTIL A NEW DECISION ON OWN RESOURCES CAME INTO FORCE, INCLUDING RATIFICATION BY MEMBER STATES, A BUDGET COULD NOT BE ADOPTED WHICH ANTICIPATED A CHANGE. HE THOUGHT THAT THIS WOULD ALSO APPLY TO THE PRELIMINARY DRAFT BUDGET AND THE DRAFT BUDGET.

COMMENT

3. THE EXTENT TO WHICH DELEGATIONS WERE STATING CONSIDERED NATIONAL POSITIONS IS UNCERTAIN AT THIS STAGE, BUT WHEN PRESIDENCY SUMMED UP THAT AT LEAST FOUR DELEGATIONS WERE OPPOSED TO A BUDGET GOING ABOVE THE 1 PERCENT CEILING THERE WAS NO DISSENT.

FCO COPY TO:-

FCO - WALL, FAIRWEATHER, MARSDEN
TSY - HOPKINSON, LENNON

BUTLER

FRAME ECONOMIC
ECD (1)

COPIES TO:

MR HOPKINSON }
MR LENNON } TREASURY

RESTRICTED

CONFIDENTIAL

note transferred from B/u copy.

"Agreed at meeting on 15 June that FCS could say that we could consider advancing the date of bringing in new own resources as part of a satisfactory overall settlement. But this must be without commitment - ment Cll"

PRIME MINISTER

Community Budget Negotiations and the 1984/85 Budget Overrun

You earlier saw the Chancellor's minute on how to deal with the linked problems of budget imbalance, 1984 overrun, 1984 refunds and 1985 Budget. (Flag A).

The Foreign and Commonwealth Secretary and Mr. Williamson subsequently gave their views (Flags B and C). (You have not yet seen these.)

(FLAG D)

The Chancellor and the Foreign and Commonwealth Secretary have now met and agreed the line in the attached minute of the 12th.

Sir Geoffrey Howe feels he will probably need to tell Dumas privately that we might agree to an arrangement of the kind proposed in his minute. He might also have to mention it to one or two others at the Foreign Affairs Council next week, though would hope to keep the card for you to play at Fontainebleau.

This is a major tactical decision. Do you agree with the course proposed by Sir Geoffrey in paragraph 5 of his minute of 12 June?

No. If we agree to this - CDP.

then by analogy with what happened after C.S.P. in 1982 we should not be able to violate national interest because of lack of agreement on budgetary intentions. not.

13 June, 1984.

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10 DOWNING STREET

From the Private Secretary

13 June 1984

When the Prime Minister saw the Foreign and Commonwealth Secretary this afternoon they agreed to hold a meeting on 15 June to consider what action might be taken to persuade Chancellor Kohl to take a more active and helpful part in obtaining a solution to the UK budget problem at Fontainebleau.

The meeting could usefully also look at the further questions: how to smoke out the Germans on whether they intend to put forward a candidate for President of the next Commission; and whether more needs to be done to bring home to Chancellor Kohl the significance of the paper on the future of the Community which the Prime Minister gave him during the London Summit.

I shall let you know as soon as possible exactly when the meeting is to be held. You kindly agreed to arrange for Sir Jock Taylor to return from Bonn for it.

I am sending copies of this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

(CHARLES POWELL)

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL



PM/84/96

PRIME MINISTER

Prime Minister
 Agree?
 C.D.
 13/6

Community Budget Negotiations and the 1984/85 Budget Overrun

- with CP
1. Nigel Lawson and I have discussed the points raised in my minute of 7 June about the handling of the 1984/85 budget overrun.
 2. Other Member States are unlikely to agree to a solution on budget imbalances at Fontainebleau in a fortnight's time unless a way is found to deal with the problem of the overrun. We must go on pressing for savings; but a substantial deficit is certain to remain.
 3. Since my minute was written President Mitterrand has made clear to you that the French - and no doubt other Member States - will be fighting hard to secure a second ad hoc year in 1985. What matters most to us will be the system and the basis on which it is established. But because, for technical reasons, the VAT share/expenditure share gap is likely to be unusually high in 1985, it is liable to be costly for us to agree to a second ad hoc year at a fixed sum and we must maintain our insistence that the system should come in to operation in the second year (ie in respect of 1984).
 4. We also have to make sure that this complex of issues is dealt with in a manner which guarantees payment of our 1984 refunds. It was agreed at Stuttgart that these should not increase Community expenditure, in other words, the correction must be made on the revenue side.
 5. The Chancellor and I agreed that to deal with the pressures on us to agree to some form of financing of the 1984/85 overrun, if we consider that some additional financing is unavoidable, you would need to be in a position at the European



Council to say, if necessary, that we could agree to bring the own resources decision forward to 1 October 1985, provided there was a satisfactory imbalances settlement, and if others agreed to do so. This idea may very well be put forward by others and we shall have to respond.

6. Only the Germans would be likely to oppose such a solution. It remains to be seen whether they would do so in isolation. I agree with the Chancellor that if we made this concession we should need to keep up the pressure on the 1985 budget to ensure that call-up of additional own resources in 1985 was limited so far as possible to covering our 1984 refunds and exceptional and unforeseen needs from autumn 1985 onwards. This approach would secure payment of the 1984 refunds, while increasing our leverage in the main negotiations.

7. On the second ad hoc year, we shall continue to point out to the French that since the correction for 1985 would operate in 1986, when new own resources would be available, there is no case for further ad hoc refunds. This approach, however, should also strengthen our hand in resisting new ad hoc arrangements.

8. I explained to Nigel Lawson that if ^{we} were to make progress in preparation for Fontainebleau, I should probably need to tell Dumas privately that we might agree to an arrangement of this kind. If I am pressed on our attitude on this matter at the Foreign Affairs Council in Luxembourg next Monday, I might have to take a similar line with one or two of the others, but would hope to avoid doing so, so that this card can be kept so far as possible for you to play at Fontainebleau.

9. I am sending copies of this minute to the Chancellor of the Exchequer, members of OD(E) and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

12 June, 1984

CONFIDENTIAL

Qz.03773

MR COLES

①
Prime Minister
Agree to Ministerial
meeting on 21 June on
UK Budget problem?

Yes normal briefing meeting?
C. D. Powell
12/6

PREPARATION FOR EUROPEAN COUNCIL OF 25-26 JUNE

We consider that it will be necessary for the Prime Minister to have a paper on the state of the negotiation and the possible options on the correction of the budget inequity and United Kingdom refunds. A paper, prepared by the European Secretariat of the Cabinet Office, after discussion with Departments, is in draft and will be submitted shortly. We recommend that the Prime Minister might discuss this with Ministerial colleagues most closely concerned - the Lord President of the Council, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer - and I understand that time has provisionally been earmarked at 4pm on the afternoon of 21 June. It would also be helpful if Sir Michael Butler were present. This timing will enable the Foreign and Commonwealth Secretary to add any points which may have arisen either at or in the margins of the Foreign Affairs Council on 18-19 June.

We recommend that there should also be a normal briefing meeting, at which senior officials will also be present. This will cover the whole agenda of the European Council, including political cooperation. I understand that this might be arranged at 5pm on 21 June. We shall let you have a list of those who might be invited as soon as the French Presidency has clarified the agenda.

I am sending a copy to Sir Robert Armstrong.

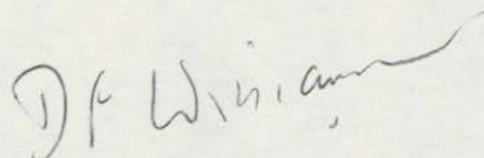
D F Williamson
D F WILLIAMSON

12 June 1984

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at least in the margins of the Foreign Affairs Council, there will be some discussion of the handling at the European Council of the outstanding issues on budget inequity and United Kingdom refunds.

A handwritten signature in cursive script, appearing to read "D F Williamson".

D F WILLIAMSON

12 June 1984

CONFIDENTIAL

CF

106 - Wm.

99 - 97

86 -

GR - please do file.

Prime Minister

MEETING WITH TERENCE HIGGINS MP AND OTHER BACKBENCH MEMBERS

Terence Higgins asked if he could bring some back-bench Members to see you to discuss the European Community budget settlement.

I attach some briefing which has come from the Foreign Office.

The following will be attending the meeting:

Terence Higgins

Angela Rumbold

David Heathcoat-Amory

Eric Forth

Marion Row

Michael Stern

Bowen Wells

Alan Howarth

Tim Yeo

Nicholas Baker

Peter Lloyd

+ MA

Chief Whip

John Coles

Charles Powell

Negotiations - Budget - C.B.P.

- Own Resources

Public Expenditure cuts

Income - Lack of

budgetary control.

Structural
Surplus


← C.B.P.

Budget & Agriculture

Refund - Inc. own resources - part on refund.

Inc. own resources part on refund.

Spain - Portugal



PRIME MINISTER'S MEETING WITH THE RT HON ██████████ TERENCE HIGGINS MP:
12 JUNE

Parliamentary procedures which would be necessary following
any agreement on the EC budget problem

Line to Take

1. The proposal on budget imbalances put forward by the French Presidency at the Brussels European Council on 19/20 March envisages that the corrective mechanism would form part of a revised Own Resources Decision. This would require the unanimous consent of Member States and approval by national Parliaments. The Government would expect to lay a draft order in Council under Section 1(3) of the 1972 European Community Act and this draft order would need to be approved by both Houses of Parliament.

2. As far as budget discipline is concerned the necessary parliamentary procedures would depend on what measures are agreed for implementing the arrangements provisionally agreed by the March European Council.




Background

1. If an increase in Own Resources is agreed, it would almost certainly be implemented by replacing the 1970 Own Resources Decision by a revised Own Resources Decision. The French Presidency text on budget imbalances provisionally agreed at the Brussels European Council envisaged that the new corrective mechanism would also be embodied in the revised Own Resources Decision.

2. Although the original Own Resources Decision does not bear the title of 'treaty' it has the character of a treaty ancillary to the EC Treaty, being made under the powers given in Article 201 of that Treaty and requiring approval by each Member State in accordance with its respective constitutional procedures. The original Decision, as a treaty ancillary to the EC Treaty, therefore comes within the definition of a 'Community Treaty' in Section 1(2) of the European Community Act 1972. Any replacement Own Resources Decision will have the same character, and so it would be appropriate for Parliamentary approval to be sought through the procedure set out in Section 1(3) of the Act for designation of instruments of the same character as those specified in Section 1(2) to which the UK accedes after the Act ie, by Order in Council requiring the approval of both Houses of Parliament.

3. Were agreement to be reached on budget imbalances and new own resources, the procedure would be:



(a) the Commission would submit a proposal for a decision to the Council of Ministers which, in the UK, would be subject to Parliamentary Scrutiny in the usual way;

(b) that decision could only be adopted by unanimity in the Council of Ministers. If it were so agreed, it would then be recommended for adoption by the Member States in accordance with their respective constitutional requirements;

(c) in the case of the UK, the Government would lay a draft Order in Council under Section 1(3) of the European Communities Act 1972. This would require the approval of both Houses of Parliament;

(d) if approved by Parliament, the Section 1(3) Order would be submitted to the Privy Council;

(e) following Privy Council enactment, the Secretary General of the Council of Ministers would be informed of the completion of the UK constitutional procedures.

4. The precise procedures in other Member States would vary according to their respective constitutional requirements, but approval by the National Parliament would be required in each case.

5. As far as budget discipline is concerned, the necessary parliamentary procedures would depend on what measures were agreed for implementing the guidelines provisionally agreed at the Brussels European Council. Our aim is to keep open all procedural options, including amendment to the Treaty of Rome,

/which



which would be the surest way of binding the Council, the Commission and the European Parliament to observe the proposed guidelines for Community expenditure.

cc PC
NO



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs

Downing Street
London SW1A 2AL

// June 1984

EC BUDGET NEGOTIATIONS

I have noted the options and preferences set out in Nigel Lawson's minute to you of 4 June.

My only general comment is that, if and when an acceptable outcome on budget imbalances is available, we must clearly be ready to consider carefully any other option which emerges and gathers support as a way of tackling the 1984 and 1985 problems. This could, however, be considered at the time.

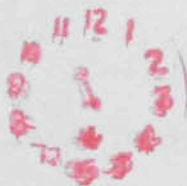
I can see the attractions of bringing an element of national financing into the chosen solution, as envisaged by Nigel. If this is to be adopted, the legal framework will need to be carefully constructed since there will be a number of difficulties to resolve. And it will be important to ensure that the mechanisms established will maintain the cash flow required by the Intervention Board without any cross effects on the other programmes of the Agricultural Departments.

I am copying this to the Prime Minister, members of OD(E) and Sir Robert Armstrong.

MICHAEL JOPLING

Euro Pot Budget Pt 25

28 JUN 1994



CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

11 June 1984

A J Coles Esq
10 Downing Street
SW1

AR 1/6.

Dear John,

PAPER ON THE FUTURE OF EUROPE

Thank you for your letter of 8 June about distribution of the paper on the Future of Europe.

2. As you know it was subsequently agreed that the Prime Minister should herself give copies of the paper to President Mitterrand and Signor Craxi at her meetings with them on 9 June. I took the opportunity to give a copy to the President of the Commission on the same day. We are arranging for copies to go to other member governments of the Community this week.

3. I am copying this letter to John Peretz (HM Treasury), Richard Hatfield (Cabinet Office), and Roger Bone.

Yours ever

Crispin Tickell

Crispin Tickell

CONFIDENTIAL

Auto Pen
Indelible
PC 25



CONFIDENTIAL



cc 720
HMT
CO

JP

10 DOWNING STREET

From the Private Secretary

SIR CRISPIN TICKELL

PAPER ON THE FUTURE OF EUROPE

Following our conversation yesterday, the Prime Minister has agreed that when Chancellor Kohl has been given our paper, you may give copies to the French and Italians during the Economic Summit (and the Commission if you wish) - and to the other EC Member States at some point thereafter.

I am copying this letter to Mr. Bone (FCO), Mr. Peretz (HM Treasury) and Mr. Hatfield (Cabinet Office).

A. J. COLES

8 June 1984

SMH



PM/84/93

PRIME MINISTEREuropean Negotiations

1. Your meetings with Chancellor Kohl and President Mitterrand during the Economic Summit will be the last opportunity to discuss a solution to the problem of our contribution to the Community budget directly with them before Fontainebleau. I am sure the best approach will be to set that problem in its wider context.
2. Mitterrand and Kohl have met twice in the last few weeks. They have tried to reach some measure of agreement on the sort of political proposals they propose to make for the re-launching of the Community. In his speech to the European Parliament Mitterrand was playing to the gallery, and the reality of his ideas on "European Union" is a good deal less than the rhetoric. But Mitterrand's speech has made an impact. In particular, it was very well calculated, and deliberately so, to appeal to Chancellor Kohl.
3. In your meetings you might wish to begin by expressing our commitment to the future development of the Community and interest in discussing at and after Fontainebleau the ideas which President Mitterrand has put forward, as well as our own ideas, set out in the paper you might give to Chancellor Kohl and to the others, (the final version of which was sent to you yesterday). You might emphasise the importance you attach to the further development of the Community's external relations and Europe's role in the world; and your interest in increased European defence cooperation within the Alliance. On the internal side, you might explain the importance we attach to the development of a true common market as related not just to the sectoral issues, important as these are (transport, insurance, air services), but to our conviction that the completion of the internal market would



have the kind of dynamic effects on job creation this has had in the United States.

4. On the budget issues, when I saw Roland Dumas yesterday he argued that if there were no agreement at Fontainebleau, this could prejudice the enlargement negotiations. He said that the other member states were entrenched on their present position, and sought to argue that we should consider further ad hoc refunds. I made clear that there was no question of our agreeing to increased own resources on that basis. I was left with the impression that Dumas would welcome further private contact before the European Council. I shall be hoping to see him again before then.

5. Against this background, for your talk with President Mitterrand I see no need to change the line you took with him on 4 May, namely that we wish to see the re-launch of the Community at Fontainebleau; that we would like to see the Community follow up Mitterrand's ideas on future developments, as well as some of our own which we shall be passing to him; and that, with a final effort by all concerned, we believe that a success is achievable at Fontainebleau. This can only be on the basis of the progress already made. In the absence of agreement, there would be little prospect of focussing on the longer term issues to which we all wish to direct our attention. Instead, the Community's efforts would be devoted to struggling through as best it could. You may wish to ask President Mitterrand how he proposes to take matters forward. If Mitterrand makes play with the position of other member states, you might say that much will depend on the manner in which the Presidency handles the discussion at Fontainebleau. You might perhaps mention my contacts with Dumas and say that we think that further private discussions with the French will be useful before Fontainebleau.

6. Kohl's attitude will be no less important if we are to reach an agreement. Given his views on the development of the Community, he undoubtedly wishes to see progress made at Fontainebleau. He should be willing to move some way to reach



an agreement, particularly if he thought that was the price of ensuring that the re-launch called for at Stuttgart under his chairmanship is accomplished. Despite the mess he made of things in Brussels, he could have a useful part to play in helping to unblock the negotiations. He is reported to have told Mitterrand that all parties will have to move a bit if a budget solution is to be found; and we should not rule out the possibility that he might be willing to make or put his weight behind a proposal which would help to break the deadlock at Fontainebleau if Mitterrand does not play a helpful role.

7. You might wish to say that you have noted that, following his meeting with President Mitterrand on 20 May, he referred to the need for movement on all sides if an agreement was to be reached. That, as he knows, is our view too, but we could not ourselves put forward a figure simply to be taken as a bargaining counter. We are continuing our own contacts with the French Presidency; but it is not clear to us how they propose to take matters forward. There will be a need for a positive effort to be made if agreement is to be reached at Fontainebleau. We are ready to make that effort but it will entail movement from the others, and we hope that Kohl will take a lead in encouraging this.

8. I suggest that you should give Craxi and Thorn also copies of our paper on the future development of the Community. The Italians are still objecting to the idea of a budget system because they are concerned at the effects that this could have, eventually, on the German contribution. Italy, however, has an obvious interest in increased own resources. You may wish to make clear that there can be no permanent increase in own resources without a systematic correction of our contribution.

9. I think Thorn well understands that we are prepared to move, but will not accept a further ad hoc year or only 1000 mecu in the system. The more he relays that message to others, having heard it from you, the better. At the same time, we want to encourage the Commission to play a helpful role if they can.



Davignon's efforts are blocked for the time being by the French. Nor can we have much confidence that the Commission might take their courage in their hands. But if they are seen to be an alternative source of ideas, and themselves are willing to indicate that they might have a role to play, this could help get some movement into the negotiations at a crucial stage.

10. You may very well be asked about our attitude to financing the 1984 shortfall. On that I would suggest sticking at this stage to the line you have already taken in Parliament, namely that this can only be considered if others matters are resolved. You might also recall that the payment of our 1983 refunds remains blocked by the French and Italians.

11. I am sending a copy of this minute to the Chancellor of the Exchequer and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
7 June, 1984



FCS/84/164

CCND
PG

ASZ

D. U. on 12 June

CHANCELLOR OF THE EXCHEQUER

A.S.C. 7/6

EC Budget Negotiations

1. Thank you for your minute of 4 June.
2. If we cannot get a satisfactory resolution on budget imbalances, and that includes agreement to release our 1983 refunds, then there will be no increase in own resources; and we should not be prepared to consider ways of financing the budget overrun. But I agree with you that other Member States will expect us to discuss how the overrun might be handled in the context of an agreement. Otherwise, we should diminish the chances of a satisfactory agreement on budget imbalances and intensify the pressures on us to agree to a second ad hoc year. This would be very expensive, given your revised estimate (2740 mecu) for the VAT share/expenditure share gap in 1985. As you point out, an arrangement on financing the overrun is also necessary to secure the release of the 1000 mecu refunds for 1984.
3. The difficulty with option (iii) is that I am not clear that this would in fact succeed in securing the release of the 1984 refunds or in heading off pressure for the second ad hoc year.
4. Option (i) seems to me to have the great advantage of (a) securing the 1984 refunds, and (b) maximising our leverage in the general negotiation. It is in accordance with the line the Prime Minister took at the Stuttgart European Council. We should not of course agree to any bringing forward of new own resources to October 1985 except on the basis of a satisfactory settlement on imbalances. I share your reservations about option (ii).
5. This will require careful handling, particularly vis a vis the Germans. I agree with the approach set out in your minute, subject to the points above. The matter is likely to come up at or just before Fontainebleau and we shall need to be able to



deploy the options at that stage in such a way as to maximise our negotiating leverage.

6. I am copying this minute to the Prime Minister, to members of OD(E) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
7 June, 1984

Euro R11

A 25

Budget

07 JUN 1984



EUROPE - THE FUTURE

THE ATTACHED PAPER WAS GIVEN TO
EUROPEAN COMMUNITY HEADS OF GOVERNMENT

BY THE PRIME MINISTER

AS A CONTRIBUTION TO DISCUSSION

AT THE EUROPEAN COUNCIL

HELD AT FONTAINEBLEAU ON 25/26 JUNE 1984.

EUROPE - THE FUTURE

INTRODUCTION

1. At the European Council in Stuttgart an ambitious programme was decided, involving a review of almost every aspect of the Community's activities. The negotiation has not been easy; and that is not surprising. There will continue to be arguments over priorities and the allocation of resources. That would be true even in a full-fledged federation. The Community progresses by the process of argument and discussion necessary to resolve its differences.

2. The Community is now close to agreement on the issues determining the course of its future development. Some progress has been made towards financing Community activity in the longer term and establishing a fairer balance of contributions. Some steps have been taken towards limiting the future costs of the agricultural regime. The Ten have agreed to work on a series of new policies to promote the economic, social and political growth on which their future well being depends. The negotiations remain to be completed. Their completion will enable the Community to concentrate on longer term objectives, and on responding to the needs and aspirations of its 270 million inhabitants.

3. This means giving greater depth to the Community in both its internal and external activities. The European Community, which has the largest share of international trade in the world and the immense benefit of the ingenuity of its peoples, and of the diversity of its economies, has only just begun to take advantage of its great potential. The Common Market is a means to an end, described in the Treaty itself as, "a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living".

4. The Community's energies must also be turned outwards so that we can:

- (i) create the sense of common purpose and momentum needed to hold together a Community of 12;
- (ii) defend our collective interests in an increasingly troubled world;
- (iii) fulfil our international responsibility to the causes of freedom, democracy, prosperity and peace;

5. If the European Community is to be effective in the world, it must also be effective in the national life of each of its Member States.

/Strengthening

Strengthening the Community

6. If the problems of growth, outdated industrial structures and unemployment which affect us all are to be tackled effectively, we must create the genuine common market in goods and services which is envisaged in the Treaty of Rome and will be crucial to our ability to meet the US and Japanese technological challenge. Only by a sustained effort to remove remaining obstacles to intra-Community trade can we enable the citizens of Europe to benefit from the dynamic effects of a fully integrated common market with immense purchasing power. The success of the United States in job creation shows what can be achieved when internal barriers to business and trade come down. We must create the conditions in which European businessmen too can build on their strengths and create prosperity and jobs. This means action to harmonise standards and prevent their deliberate use as barriers to intra-Community trade; more rapid and better coordinated customs procedures; a major effort to improve mutual recognition of professional qualifications; and liberalising trade in services, including banking, insurance and transportation of goods and people. If we do not give our service and manufacturing industries the full benefit of what is potentially the largest single market in the industrialised world, they will never be fully competitive at international level, and will be unable to create much needed jobs within the Community.

7. At the same time we must do more, and work harder, to make actions undertaken within the Community relevant to the lives of our people. A sustained effort will be required further to simplify and speed up customs and other formalities affecting the ease with which our citizens can travel across intra-Community borders. We should aim, for example, to allow European citizens to travel as freely and cheaply as the inhabitants of the United States. Important steps could be taken in that direction by increased competition and the de-regulation of air services.

8. The Common Agricultural Policy has succeeded in the objective of providing Europe with a strong agricultural base. Remarkable increases in productivity have been achieved. The preservation of the best elements of that policy requires a continuing effort to correct the distortions which manifest themselves in the form of massive and costly surpluses of certain products, imposing high storage costs and the need to dispose of them in ways which complicate trading relations with our OECD partners and are impossible to defend to our own citizens and tax payers. An important and courageous effort has been made to control surpluses in the dairy sector. A sustained, multi-year effort will be required to achieve a better balance between production and demand, thereby releasing resources for other purposes.

9. For in the next decade equal priority must be given to creating the right conditions for the development of a vigorous, efficient and cost effective industrial sector able to compete with the United States, Japan and the newly industrialised countries. To this end, we need to examine urgently whether more can be achieved, or can be achieved more economically, by action on a Community basis rather than nationally. Better cooperation on research and development will help avoid duplication and waste. In some cases Governments can cooperate directly to encourage industrial activity at European levels - as in the case of Airbus, ESPRIT and JET. The Commission has suggested that the Community now look at possible programmes in telecommunications and biotechnology. We should examine these and similar proposals carefully to see whether they will be more effective at the Community level. In doing so, we should give high priority to facilitating collaboration at the industrial level. Member Governments must act to limit the administrative and legal impediments to risk-sharing and investment, in order to allow European firms to compete and cooperate in a way which will enhance their ability to match the performance of their competitors.

10. Creating the right conditions for economic growth without due regard for the wider interests of our environment and of our consumers is not acceptable. The peoples of Europe must feel

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12. This process will require political direction. We should agree in the European Council that each Member Government should examine its priorities and policies in sectors covered by the Treaties in order to see in each case whether greater progress

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A flexible Europe

13. The European Communities, with their corpus of institutional and legal structures, and their own resources, are and must remain the framework within which Community law applies. Action undertaken in the Community framework must continue to be on a basis of equal rights and equal obligations. But a certain flexibility of approach may be necessary in the coming decade, when the Community will have become larger, its membership more diverse, and in some areas of technological development, the industrial structures and interests of Member States more varied. For such practical reasons, it may sometimes make sense for participation in new ventures to be optional. This should not lead to rigid distinctions between different groups of participants. That would be particularly disillusioning for our new members who expect to be joining a democratic and homogeneous Community. Where ventures are launched by Member States with limited participation, it should be open to others to join in as and when they are able to do so. The possibility for action financed by the Community or with Community law as its legal base should be examined before it is decided to proceed on a more limited basis. The progress of all such work relevant to European integration should be monitored and open for discussion in a suitable high-level forum.

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14. It must be our objective to aim beyond the Common Commercial Policy through Political Cooperation towards a common approach to external affairs. Such a policy can only be achieved progressively: it must nevertheless be the aim before us.

15. The Community and its Member States already have at their disposal many of the elements for a common external policy. It is linked to other Western European countries through the EEC/EFTA agreements. The Lomé Convention binds the Community in a contractual relationship covering aid and trade with 64 developing countries. The Common Commercial Policy governs its trade relations with the rest of the world. The Community takes common action in international economic organisations. There is the network of Association and Cooperation agreements both with individual countries and with groups such as ASEAN and the Andean Pact. The growth of Political Cooperation enables the members of the Community increasingly to adopt common positions on world problems and to vote together in non-economic international bodies. Our aim for the future should be to bring about a greater coherence between these different elements. In that way a common external policy could be progressively achieved.

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management of East-West relations, and no less so in the management of the problems of the world economy and trade. Our task must be to ensure that Europe plays no less central a role in all those respects. By common action of the Community and the Ten, Europe must impress on the US that unilateral American action, eg on technology transfers, extra-territoriality, unitary taxation and, above all, protection for US industries will put the success of Alliance consultation and coordination at risk. Equally we must be ready in Europe to make progress towards the liberalisation of our trading practices, and to play a full part in strengthening the GATT trading system. Mechanisms for consultation and coordination between the Allies are already in place. What we need is the will on both sides to use them to get results: bilaterally, within the Alliance, and on behalf of the Community and its Member States.

17. Europe is more than Western Europe alone. By the end of this century we could see the Soviet Union with increasingly serious economic difficulties and growing problems in Eastern Europe. At that stage more than ever, a coherent and persuasive West European voice will need to be heard on the management of East-West relations. Europeans have their own interest in economic relations with the Soviet Union and East European countries, illustrated by the level and intensity of their political contacts with them. They should reflect on the special

status this gives them, and on the scope it offers for a more coordinated approach on wider questions, eg the encouragement of a more differentiated economic and social development in Eastern Europe. Steps of this kind will strengthen the European political entity and enable it to act more effectively in relation to the major international issues which legitimately concern it.

18. The Community must also use its weight to influence the other major industrialised economies to shoulder their share of responsibility for the world economy: the United States by paying more attention to the international consequences of its domestic economic policies, and Japan by integrating its financial markets into the world economy and raising the level of its manufactured imports to one comparable with other industrial democracies. The Community must act jointly with these major trading partners to promote the further liberalization of international trade and to extend the open trading system, including a well-prepared new GATT trade round. This would bring the many varieties of developing countries more effectively into the world trading system, and persuade the more advanced among them to take more responsibility for its good management. Our performance so far in encouraging development in the Lomé countries, in South-East Asia, in Latin America, and in many other countries through our food aid and non-associates programmes is commendable. But there

is room for better coordination between Member States, the Community and other donors to secure maximum political as well as developmental effectiveness from our aid.

19. In Political Cooperation, the Ten need to act with more vigour and greater purpose. Cooperation should not just be a matter of making declarations in the face of increasingly complex challenges. The Ten have the weight and must show more political will to act together: concentrate their efforts where their leverage is greatest and their interests most directly touched e.g. in the Middle East and Africa; and recognise that influence does not last if not backed by the necessary resources. Member States must take more seriously their solemn commitments to consult and take account of partners' views and work for common positions. The objective should be the progressive attainment of a common external policy.

Defence and Security

20. Our objective must be to strengthen the European pillar of the Alliance and improve European defence cooperation.

21. Europe already carries a heavy defence burden within the Alliance - although some of its members take a greater share of that burden than others. It contributes to security both on this Continent and in the wider world by a variety of political and economic as well as military instruments. This contribution is

far greater than is understood in the United States. If such views are not corrected, the temptation will grow for America, under pressure from the Congress, to look more toward interests outside Europe. Yet the US strategic commitment to Europe will remain an irreplaceable guarantee of Western security. If we wish to preserve it and ensure that our views continue to be given due weight by future US Administrations, the European Allies must find answers to some difficult questions: Are we able to take on a larger share of the responsibility for our defence? How should we respond to renewed public questioning of defence policy? Or the need to develop new technologies at a time of rising costs and resource constraints? The answers make it evident that such problems have to be tackled jointly.

22. Most work to coordinate European positions on this so far has been done in the NATO framework, particularly in the Eurogroup and the IEPG (which has the merit of including France), and there is still more that could be done to exploit the potential of these groupings. We must continue to work for the implementation of the Genscher/Colombo Solemn Declaration of 19 June 1983 which provides a helpful reaffirmation of the Community's political and economic objectives. But if we want early progress - and an early chance to demonstrate our seriousness - we must be willing to look at new openings including those offered by the WEU.

23. Procedure and new organisations are no substitute for content and action to solve existing problems. We have to be prepared to make efforts before we can pool them. Progress demands in particular that we focus on the resource allocation and defence industrial aspects of the problem. We should be able to achieve better value for money by common procurement and collaborative manufacturing projects, recognising (as past experience has always shown) that this process will give rise to very real political problems and difficulties for which there are no facile solutions. Individual projects are probably best organised on a case-by-case basis between those member countries with the capacity and wish to undertake them, making use of the framework of the IEPG. But the general prospects for them could be greatly improved by progress towards a more integrated European industrial and technological base, and by strengthening the Community's internal market. These are areas of proper Community concern which need our urgent attention.

Organisation and Institutions

24. There are several areas in which specific improvements can be made. With regard to the Community:

- (a) The Commission's role is central to the functioning of the Community. It is crucial that it should attract, and that Member States should appoint, individuals of the

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highest calibre with a clear recognition of the tasks to be done. After enlargement the Commission still needs to be able to provide real jobs for people of the best quality. A Commission of 17 is liable to be too large for efficiency or to provide all members with serious portfolios.

(b) The Presidency also plays a key role in the management of the Community's business. Its effectiveness would be enhanced by greater cooperation between the Presidency in office and the preceding and succeeding Presidencies.

(c) An early European Council should consider adopting a new procedure under which each year the European Council would adopt a brief and succinct statement of priorities, with specific timings and targets, which would form the basis of the Community's activities for the following 12 months.

(d) When the Commission reviews its legislative proposals each year, there should be a thorough weeding out of hopelessly blocked items and unnecessary cases of obstruction brought to the notice of the Council.

(e) The voting provisions of the Treaty must be fully honoured. Unanimity must be respected in all cases where the Treaty so provides. The same applies for majority

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voting. At the same time, Member States must be able to continue to insist where a very important national interest is at stake on discussion continuing until agreement is reached. But they should be required in each case to set out their reasons fully.

(f) The European Council should eschew the role of Court of Appeal from the Council. Its true and irreplaceable task is to provide strategic direction and political impetus for all areas of Community work and Member States' cooperation. For this, it might be enough for it to meet no more than twice a year, perhaps for two full days. Alternatively, one of the three annual meetings might be conducted on a more informal "Gymnich-type" framework without advisers. The primary responsibility for preparing European Councils should rest, as it does now, with Foreign Ministers.

(g) In a grouping of democratic European states the directly elected European Parliament must reflect with increasing responsibility the preoccupations and priorities of our peoples. Through the various procedures set out in the Solemn Declaration of June 1983, the Council and Member States need to work out ways of keeping the Parliament better informed, responding to its suggestions and bringing it to work in greater harmony with the main decision making

institutions of the Community.

(h) Once the post-Stuttgart negotiation has been completed it should be possible for Member Governments to take common action to present the Community to their peoples in a more favourable light. It is important that people should receive an objective picture of the present state of European integration. It would be desirable for Foreign Ministers, at an early informal meeting, to discuss this question and, if possible, to agree on some common themes for Governments to put forward in their presentation of the Community and of the issues under discussion in it.

Conclusions

25. The European Community and the Alliance jointly have brought an unprecedented period of peace and prosperity to the peoples of Europe. We cannot rest on the achievements of the post-war generation. Over the next decade Europe will face new economic and social challenges, and a continuing threat to her security.

26. Periodic expressions of pessimism about the future of the Community have never turned out to be justified. Europe needs to advance its internal development. The progress that has been made towards "an ever-closer union of the peoples of Europe" of which the Treaty of Rome speaks in its first paragraph is

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unlikely to be reversed.

27. The objectives now must be to:

- strengthen democracy and reinforce political stability in Europe. This means bringing to a successful conclusion the accession negotiations with Portugal and Spain;
- develop a dynamic society in which industry thrives and activities which create wealth are encouraged. To do so, we must complete the internal market, particularly in the services sector;
- strengthen the European pillar of the Alliance and the contribution Europe makes to its own security;
- promote policies which will improve the quality as well as the standard of life in the Community;
- with due regard for the needs of economic and industrial efficiency, do more to promote the improvement and protection of the environment;
- agree urgently on certain organisational changes;
- adopt policies which will guarantee the relevance of the Community to the problems, particularly unemployment, which

/affect

affect our societies;

- take the necessary steps to strengthen the voice of the Community and make its influence felt in the world;

- heighten the consciousness among our citizens of what unites us.

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cc: HMT
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10 DOWNING STREET

From the Private Secretary

7 June 1984

Paper on the Future of the
European Community

Thank you for your letter of 6 June. The Prime Minister has approved the revised version of the paper enclosed with your letter. She will hand it over to Chancellor Kohl at her Bilateral meeting with him on Saturday morning.

I am copying this letter to the recipients of yours.

△ ↓ COLES

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

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PRIME MINISTER

6 June 1984

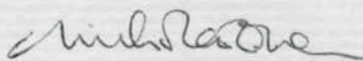
EC BUDGET NEGOTIATIONS

There is a mounting unease among our own backbenchers that in the course of these negotiations we will concede our trump card - agreement to an increase in the Community's own resources - without getting the CAP back into its cage. The Community is overspending on agriculture this year by over 2 billion Ecu. In 1985, the Commission is planning to increase farm price support by 17% over the original 1984 Budget provision. These pointers suggest that neither the Commission nor our partners have really grasped the point which we have embedded in the Presidency text, namely, that net expenditure on agriculture should increase at less than the rate of growth in the own resources base. They want more own resources because farm spending is out of control but if this principle were adopted they could not use these resources on agriculture!

Nigel Lawson has set out the options for pursuing the Great Negotiations. His preferred option is to delay the own resources increase until 1986, refuse any supplementary finance in the meantime, at the cost of delaying our 1984 refund until 1986. The Foreign Office may well prefer the alternative; bringing forward the own resources increase to "late 1985". This would finance the overruns envisaged and provide for our refund in (late?) 1985.

Both these options could be construed by press, public and backbench opinion as defeat. There has to be agreement on how the CAP expenditure is to be controlled before any increase in own resources, whether in 1985, 1986, or beyond. This would further delay our 1984 refunds, but do we not have to accept delay as the price well worth paying to secure a limit on the wasteful, destructive, and highly unpopular CAP? Food prices do have to be brought down closer to world levels.

In the course of the Summit bilaterals you might want to take the opportunity to emphasise the simple point that the British public has no enthusiasm for increasing Community resources, and would adamantly refuse to accept doing so unless CAP expenditure is firmly under control.


NICHOLAS OWEN

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Foreign and Commonwealth Office

London SW1A 2AH

6 June 1984

John John.

*Paper agreed
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Paper on the Future of the European Community

I enclose a revised version of the paper, which takes account of all the Prime Minister's points (your letter to me of 4 June) and of comments from Mr Lawson and Mr Tebbit.

I have sidelined those parts of the text which contain changes other than those requested in your letter. Para 12 has been slightly recast to take account of Mr Tebbit's views. We have slightly redrafted the reference to the Luxembourg compromise (para 24(e)) in the interests of consistency. And in para 24(f) we have, as you requested, deleted the reference to additional preparation for European Councils, and made clear that primary responsibility rests with Foreign Ministers. In para 27, there is a minor amendment to the reference to the environment, in the interests of clarity.

I am copying this letter to the recipients of my letter of 5 June.

John
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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EUROPE - THE FUTURE

INTRODUCTION

1. At the European Council in Stuttgart an ambitious programme was decided, involving a review of almost every aspect of the Community's activities. The negotiation has not been easy; and that is not surprising. There will continue to be arguments over priorities and the allocation of resources. That would be true even in a full-fledged federation. The Community progresses by the process of argument and discussion necessary to resolve its differences.

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far greater than is understood in the United States. If such views are not corrected, the temptation will grow for America, under pressure from the Congress, to look more toward interests outside Europe. Yet the US strategic commitment to Europe will remain an irreplaceable guarantee of Western security. If we wish to preserve it and ensure that our views continue to be given due weight by future US Administrations, the European Allies must find answers to some difficult questions: Are we able to take on a larger share of the responsibility for our defence? How should we respond to renewed public questioning of defence policy? Or the need to develop new technologies at a time of rising costs and resource constraints? The answers make it evident that such problems have to be tackled jointly.

22. Most work to coordinate European positions on this so far has been done in the NATO framework, particularly in the Eurogroup and the IEPG (which has the merit of including France), and there is still more that could be done to exploit the potential of these groupings. We must continue to work for the implementation of the Genscher/Colombo Solemn Declaration of 19 June 1983 which provides a helpful reaffirmation of the Community's political and economic objectives. But if we want early progress - and an early chance to demonstrate our seriousness - we must be willing to look at new openings including those offered by the WEU.

23. Procedure and new organisations are no substitute for content and action to solve existing problems. We have to be prepared to make efforts before we can pool them. Progress demands in particular that we focus on the resource allocation and defence industrial aspects of the problem. We should be able to achieve better value for money by common procurement and collaborative manufacturing projects, recognising (as past experience has always shown) that this process will give rise to very real political problems and difficulties for which there are no facile solutions. Individual projects are probably best organised on a case-by-case between those member countries with the capacity and wish to undertake them, making use of the framework of the IEPG. But the general prospects for them could be greatly improved by progress towards a more integrated European industrial and technological base, and by strengthening the Community's internal market. These are areas of proper Community concern which need our urgent attention.

Organisation and Institutions

24. There are several areas in which specific improvements can be made. With regard to the Community:

- (a) The Commission's role is central to the functioning of the Community. It is crucial that it should attract, and that Member States should appoint, individuals of the

/highest

highest calibre with a clear recognition of the tasks to be done. After enlargement the Commission still needs to be able to provide real jobs for people of the best quality. A Commission of 17 is liable to be too large for efficiency or to provide all members with serious portfolios.

(b) The Presidency also plays a key role in the management of the Community's business. Its effectiveness would be enhanced by greater cooperation between the Presidency in office and the preceding and succeeding Presidencies.

(c) An early European Council should consider adopting a new procedure under which each year the European Council would adopt a brief and succinct statement of priorities, with specific timings and targets, which would form the basis of the Community's activities for the following 12 months.

(d) When the Commission reviews its legislative proposals each year, there should be a thorough weeding out of hopelessly blocked items and unnecessary cases of obstruction brought to the notice of the Council.

(e) The voting provisions of the Treaty must be fully honoured. Unanimity must be respected in all cases where the Treaty so provides. The same applies for majority

/voting

voting. At the same time, Member States must be able to continue to insist where a very important national interest is at stake on discussion continuing until agreement is reached. But they should be required in each case to set out their reasons fully.

(f) The European Council should eschew the role of Court of Appeal from the Council. Its true and irreplaceable task is to provide strategic direction and political impetus for all areas of Community work and Member States' cooperation. For this, it might be enough for it to meet no more than twice a year, perhaps for two full days. Alternatively, one of the three annual meetings might be conducted on a more informal "Gymnich-type" framework without advisers. The primary responsibility for preparing European Councils should rest, as it does now, with Foreign Ministers.

(g) In a grouping of democratic European states the directly elected European Parliament must reflect with increasing responsibility the preoccupations and priorities of our peoples. Through the various procedures set out in the Solemn Declaration of June 1983, the Council and Member State need to work out ways of keeping the Parliament better informed, responding to its suggestions and bringing it to work in greater harmony with the main decision making

/institutions

institutions of the Community.

(h) Once the post-Stuttgart negotiation has been completed it should be possible for Member Governments to take common action to present the Community to their peoples in a more favourable light. It is important that people should receive an objective picture of the present state of European integration. It would be desirable for Foreign Ministers, at an early informal meeting, to discuss this question and, if possible, to agree on some common themes for Governments to put forward in their presentation of the Community and of the issues under discussion in it.

Conclusions

25. The European Community and the Alliance jointly have brought an unprecedented period of peace and prosperity to the peoples of Europe. We cannot rest on the achievements of the post-war generation. Over the next decade Europe will face new economic and social challenges, and a continuing threat to her security.

26. Periodic expressions of pessimism about the future of the Community have never turned out to be justified. Europe needs to advance its internal development. The progress that has been made towards "an ever-closer union of the peoples of Europe" of which the Treaty of Rome speaks in its first paragraph is

/unlikely

unlikely to be reversed.

27. The objectives now must be to:

- strengthen democracy and reinforce political stability in Europe. This means bringing to a successful conclusion the accession negotiations with Portugal and Spain;
- develop a dynamic society in which industry thrives and activities which create wealth are encouraged. To do so, we must complete the internal market, particularly in the services sector;
- strengthen the European pillar of the Alliance and the contribution Europe makes to its own security;
- promote policies which will improve the quality as well as the standard of life in the Community;
- with due regard for the needs of economic and industrial efficiency, do more to promote the improvement and protection of the environment;
- agree urgently on certain organisational changes;
- adopt policies which will guarantee the relevance of the Community to the problems, particularly unemployment, which

affect our societies;

- take the necessary steps to strengthen the voice of the Community and make its influence felt in the world;

- heighten the consciousness among our citizens of what unites us.

Ref. A084/1644

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary had a meeting with the French Minister for European Affairs, Monsieur Dumas, on 6 June, though he may not wish at this stage to say very much, if anything, about this in full Cabinet. The French are actively promoting their ideas on the development of the Community, as set out in Monsieur Mitterrand's speech to the European Parliament on 24 May, no doubt with a view to making them the centrepieces of the Fontainebleau European Council on 25-26 June. These ideas do not go much beyond existing positions but have been presented in a way which has been well received in the Community, particularly in Germany. The United Kingdom will be setting out its own views in the paper which you expect to give to Herr Kohl and other Community Heads of Government in the next few days. On the specific question of the reform of the Community's financing and the United Kingdom refunds other member states, currently preoccupied with the European Parliamentary elections, are viewing the issue with indifference and the prospect of further concessions with hostility. The meeting with Monsieur Dumas and other recent meetings suggest that Monsieur Mitterrand would still like to resolve during the French Presidency the problems still outstanding from the March meeting of the European Council in Brussels, so that the Fontainebleau meeting can be seen as a success and as in some sense the occasion which "relaunches" the Community. The French Presidency may therefore be prepared to sponsor an acceptable compromise on the budgetary problem in the period immediately before the European Council.

2. The Foreign and Commonwealth Secretary may also comment on the European Community Heads of Mission Conference on 5 June at which our Ambassadors in the Community discussed the attitude of other member states to the Fontainebleau European Council and the correction of the budget inequity.

3. The Chancellor of the Exchequer may report on the Finance Council on 4 June. On budget discipline, the options for implementing the financial guidelines will include, as the United Kingdom wanted, the possibility both of Treaty amendment and of inclusion in regulations. There was considerable opposition, in which we joined, to the idea of a reserve to allow for extra agricultural expenditure. The detailed working out of the arrangements on budget discipline depends on a successful conclusion on the correction of the budget inequity. The Council agreed in principle to increase the ceiling for Community loans from 6 to 8 billion ecu. The United Kingdom alone resisted a proposal for innovation loans because we did not consider that this was the best way to deal with this issue. The proposal has now been abandoned.

4. The Minister of Agriculture, Fisheries and Food may report on the Fisheries Council on 24 May at which the United Kingdom was represented by the Minister of State (Mr MacGregor). This agreed to extend provisional quotas for North Sea herring in the Community's waters to 155,000 tonnes this year. In the interests of conservation the Council also decided to postpone a change in the permitted mesh size of fishing nets in the North Sea until 1 January 1987.

5. There have been a number of other meetings since Cabinet last met but none appears to merit a separate report: the informal meeting of Foreign Ministers on 25-27 May was largely devoted to matters of political co-operation; the informal meeting of Agriculture Ministers on 28-30 May discussed the reform of the wine regime; and the Education Council on 4 June, the Consumer Affairs Council and the Development Council both on 5 June dealt with routine business.

6. The Labour and Social Affairs Council meets on 7 June, when the proposed recommendation on working time will be on the agenda.

RIA

ROBERT ARMSTRONG

6 June 1984



10 DOWNING STREET

Prime Minister

Future of Europe.

Could you now approve this
paper — amendments from the
earlier version are sidelined.

ACG
/c.

Agreed
ms

cc.
NIO
CO
DTI
LOD
LPS
MAFF
FCO

bc PC.

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

Mr. Peretz

EC BUDGET NEGOTIATIONS

The Prime Minister has seen the Chancellor of the Exchequer's minute of 4 June. She will wish to consider the proposals in it after the Economic Summit, and in the light of the views of other members of OD(E).

I am sending copies of this minute to the Private Secretaries to the other members of OD(E) and to Richard Hatfield (Cabinet Office).

A. J. COLES

6 June, 1984.

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JK

*PC NO
PC*

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

6 June 1984

*Ans
6/6*

Roger Bone Esq
Foreign and Commonwealth Office
Downing Street

*Dear Roger***PAPER ON THE FUTURE OF THE EUROPEAN COMMUNITY**

The Chancellor has seen the paper for the Prime Minister to hand to Chancellor Kohl with your letter of 1 June to John Coles, together with the Prime Minister's comments in John Coles' reply to you of 4 June.

The Chancellor has asked me to say that he is content that the paper, with the Prime Minister's amendments, should be passed to Chancellor Kohl as proposed, subject to the two following further points.

First, he suggests that in passing the paper to Chancellor Kohl, the Prime Minister will wish to make it clear that a satisfactory settlement of the Budget imbalances problem is an essential pre-condition of progress in the other fields discussed in the paper. Second, on a point of detail, in the fourth indent in paragraph 28 the words "with due regard for the needs of economic and industrial efficiency" should come after the semi-colon so that they directly govern the statement about environmental considerations.

I am copying this letter to John Coles at No.10 and to Callum McCarthy (DTI), Ivor Llewellyn (MAFF) and Richard Hatfield (Cabinet Office)

*Yours ever
David*

D L C PERETZ
Principal Private Secretary

Euro budget Pt 25

06 JUN 1984



CCPC



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

JF6634

Secretary of State for Trade and Industry

6 June 1984

R B Bone Esq
Private Secretary to the
Foreign Secretary
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AH

MR 7.

Dear Roger,

FUTURE OF THE EUROPEAN COMMUNITY

My Secretary of State has seen the draft paper on this, enclosed with your letter of 4 June to John Coles. He understands that the Prime Minister has already expressed her general approval.

2 Recognizing that it is designed to strike a positive note but without entering into specific commitments, he notes that paragraph 12 as drafted does in fact offer a very substantial commitment to an extensive and possible controversial programme of work. He is doubtful whether, without a more selective approach, it will be acceptable or altogether convincing in other Community capitals. Mr Tebbit suggests it might be looked at again or omitted.

3 Second, he agrees that it is desirable to combine a flexible approach to a flexible Europe together with procedures keeping co-operation on the widest possible basis. Otherwise we could easily drift not only into a two-speed Community but one of fragmentation and privilege. But obviously ventures on a limited basis among enterprises, which may contribute to European integration, should not be saddled with any new procedural burdens. To make this clear, my Secretary of State suggests two textual amendments to para. 13.

- (i) Eight lines from the bottom - "Where ventures are launched by Member States ..."

/(ii) ...



(ii) Last sentence "The progress of all such work ..."

4 I am sending copies of this letter to the recipients of yours.

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

05 JUN 1984

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Qz.03752

*S. U. after Economic
summit. AR 7/16.*

MR COLES

EUROPEAN COMMUNITY: BUDGET NEGOTIATIONS AND "OVERRUN"

The Prime Minister has ^{with PM 4/16.} had a copy of the Chancellor of the Exchequer's minute of 4 June to the Foreign and Commonwealth Secretary. The question of the link between the long term reform of the Community's financing, finding the Community cash for the United Kingdom's 1984 refund (ie the ad hoc year) and the budget overrun has been discussed between departments and, in substance, there is now agreement on the Treasury's paper. The Foreign and Commonwealth Secretary, however, will probably disagree with the tactics recommended by the Chancellor of the Exchequer in paragraph 8 of his minute.

Our advice is:-

(1) the United Kingdom's policy is to cut back 1984 expenditure to the budget level. If, however, some budget overrun is unavoidable in 1984, there will be no Community resources to finance it. Any overrun would be financed nationally and reimbursed out of the 1985 budget (this is, of course, more favourable to the United Kingdom than direct Community financing);

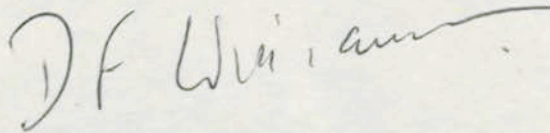
(2) the real problem arises in 1985. On the 1985 budget the United Kingdom has conflicting objectives: we must hold expenditure down but we also want our 1000 million ecu refund in respect of 1984. The Chancellor of the Exchequer (options (i) and (iii) in paragraph 3 of his minute) rightly states that there is a choice: either an increase of the Community's resources in the autumn of 1985 with our 1984 refund of 1000 million ecu obtained in 1985 or no increase in the Community's resources until January 1986 with our 1984 refund of 1000 million ecu obtained at the beginning of 1986. We consider the Chancellor's choice of

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option (iii), with option (i) as a fallback, as conducive to budgetary discipline in 1985 and perfectly reasonable. The Foreign and Commonwealth Office, however, will be advising the Foreign and Commonwealth Secretary to go directly for option (i);

(3) the Cabinet Office has opposed option (ii). If the United Kingdom were to accept that extra Community resources could be raised by a regulation under Article 235 of the Treaty and not by a prior amendment of the Own Resources Decision, we should be hitting at our own position not only in the immediate future but also when the question of the own resources ceiling comes round again in the future. This is, in substance, the same point which the Prime Minister took over the question of the Community's credit rating, when we won the battle.

I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

5 June 1984



Foreign and Commonwealth Office

London SW1A 2AH

5 June 1984

John David,

*HR 7/6
L.A.*

Paper on the Future of the European Community

I attach a fair copy of this paper, revised in accordance with the Prime Minister's wishes (John Coles' letter of 4 June to me). The Prime Minister wishes to pass the paper to Chancellor Kohl during the Economic Summit.

I should be grateful for confirmation by 6 pm on Wednesday, 6 June that the Chancellor, Mr Tebbit and Mr Jopling are content for the paper to go forward to Chancellor Kohl, and, thereafter to other EC Heads of Government. The paper has already been cleared on a restricted basis by senior officials in the Treasury, DTI, MAFF and Cabinet Office.

I am copying this letter to Callum McCarthy (DTI), Ivor Llewellyn (MAFF), Richard Hatfield (Cabinet Office), and John Coles.

[Handwritten signature]

(R B Bone)
Private Secretary

David Peretz Esq
HM Treasury

EUROPE - THE FUTURE

INTRODUCTION

1. At the European Council in Stuttgart an ambitious programme was decided, involving a review of almost every aspect of the Community's activities. The negotiation has not been easy; and that is not surprising. There will continue to be arguments over priorities and the allocation of resources. That would be true even in a full-fledged federation. The Community progresses by the process of argument and discussion necessary to resolve its differences.

2. The Community is now close to agreement on the issues determining the course of its future development. Some progress has been made towards financing Community activity in the longer term and establishing a fairer balance of contributions. Some steps have been taken towards limiting the future costs of the agricultural regime. The Ten have agreed to work on a series of new policies to promote the economic, social and political growth on which their future well being depends. The negotiations remain to be completed. Their completion will enable the Community to concentrate on longer term objectives, and on responding to the needs and aspirations of its 270 million inhabitants.

3. This means giving greater depth to the Community in both its internal and external activities. The European Community, which has the largest share of international trade in the world and the immense benefit of the ingenuity of its peoples, and of the diversity of its economies, has only just begun to take advantage of its great potential. The Common Market is a means to an end, described in the Treaty itself as, "a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living".

4. The Community's energies must also be turned outwards so that we can:

- (i) create the sense of common purpose and momentum needed to hold together a Community of 12;
- (ii) defend our collective interests in an increasingly troubled world;
- (iii) fulfil our international responsibility to the causes of freedom, democracy, prosperity and peace;

5. If the European Community is to be effective in the world, it must also be effective in the national life of each of its Member States.

/Strengthening

Strengthening the Community

6. If the problems of growth, outdated industrial structures and unemployment which affect us all are to be tackled effectively, we must create the genuine common market in goods and services which is envisaged in the Treaty of Rome and will be crucial to our ability to meet the US and Japanese technological challenge. Only by a sustained effort to remove remaining obstacles to intra-Community trade can we enable the citizens of Europe to benefit from the dynamic effects of a fully integrated common market with immense purchasing power. The success of the United States in job creation shows what can be achieved when internal barriers to business and trade come down. We must create the conditions in which European businessmen too can build on their strengths and create prosperity and jobs. This means action to harmonise standards and prevent their deliberate use as barriers to intra-Community trade; more rapid and better coordinated customs procedures; a major effort to improve mutual recognition of professional qualifications; and liberalising trade in services, including banking, insurance and transportation of goods and people. If we do not give our service and manufacturing industries the full benefit of what is potentially the largest single market in the industrialised world, they will never be fully competitive at international level, and will be unable to create much needed jobs within the Community.

7. At the same time we must do more, and work harder, to make actions undertaken within the Community relevant to the lives of our people. A sustained effort will be required further to simplify and speed up customs and other formalities affecting the ease with which our citizens can travel across intra-Community borders. We should aim, for example, to allow European citizens to travel as freely and cheaply as the inhabitants of the United States. Important steps could be taken in that direction by increased competition and the de-regulation of air services.

8. The Common Agricultural Policy has succeeded in the objective of providing Europe with a strong agricultural base. Remarkable increases in productivity have been achieved. The preservation of the best elements of that policy requires a continuing effort to correct the distortions which manifest themselves in the form of massive and costly surpluses of certain products, imposing high storage costs and the need to dispose of them in ways which complicate trading relations with our OECD partners and are impossible to defend to our own citizens and tax payers. An important and courageous effort has been made to control surpluses in the dairy sector. A sustained, multi-year effort will be required to achieve a better balance between production and demand, thereby releasing resources for other purposes.

9. For in the next decade equal priority must be given to creating the right conditions for the development of a vigorous, efficient and cost effective industrial sector able to compete with the United States, Japan and the newly industrialised countries. To this end, we need to examine urgently whether more can be achieved, or can be achieved more economically, by action on a Community basis rather than nationally. Better cooperation on research and development will help avoid duplication and waste. In some cases Governments can cooperate directly to encourage industrial activity at European levels - as in the case of Airbus, ESPRIT and JET. The Commission has suggested that the Community now look at possible programmes in telecommunications and biotechnology. We should examine these and similar proposals carefully to see whether they will be more effective at the Community level. In doing so, we should give high priority to facilitating collaboration at the industrial level. Member Governments must act to limit the administrative and legal impediments to risk-sharing and investment, in order to allow European firms to compete and cooperate in a way which will enhance their ability to match the performance of their competitors.

10. Creating the right conditions for economic growth without due regard for the wider interests of our environment and of our consumers is not acceptable. The peoples of Europe must feel

/that

that the Community improves the quality of their lives. Many environmental problems require action going beyond the capabilities of individual Member States. They have to be tackled on the basis of serious analysis of the scientific evidence and with due regard to industrial costs and efficiency. This is an area in which the Community has an important role to play. The United Kingdom has already suggested that decisions should be taken urgently to bring about the elimination of lead in petrol. It is also time for a programme of research aimed at finding solutions to the problems caused by acid rain, and for controls on trans-frontier shipments of hazardous waste to continue to be developed.

11. At the cultural level, we should examine whether Governments cannot do more to encourage the learning of other Community languages. The European Foundation could play a useful role in this and in developing professional exchanges. Full access to each others' satellite broadcasting systems would help the process of cultural interchange in an eminently practical way of direct concern to mass audiences.

12. This process will require political direction. We should agree in the European Council that each Member Government should examine its political priorities and its current national policies in all sectors covered by the Treaties in order to see

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in each case whether greater progress could be made by a cooperative approach at the Community level. The results of this examination should be studied by the General Affairs Council and reported back to the European Council.

A flexible Europe

13. The European Communities, with their corpus of institutional and legal structures, and their own resources, are and must remain the framework within which Community law applies. Action undertaken in the Community framework must continue to be on a basis of equal rights and equal obligations. But a certain flexibility of approach may be necessary in the coming decade, when the Community will have become larger, its membership more diverse, and in some areas of technological development, the industrial structures and interests of Member States more varied. For such practical reasons, it may sometimes make sense for participation in new ventures to be optional. This should not lead to rigid distinctions between different groups of participants. That would be particularly disillusioning for our new members who expect to be joining a democratic and homogeneous Community. Where ventures are launched with limited participation, it should be open to other Member States to join in as and when they are able to do so. The possibility for action financed by the Community or with Community law as its legal base should be examined before it is decided to proceed on

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a more limited basis. The progress of all work relevant to European integration should be monitored and open for discussion in a suitable high-level forum.

Europe in the World

14. It must be our objective to aim beyond the Common Commercial Policy through Political Cooperation towards a common approach to external affairs. Such a policy can only be achieved progressively: it must nevertheless be the aim before us.

15. The Community and its Member States already have at their disposal many of the elements for a common external policy. It is linked to other Western European countries through the EEC/EFTA agreements. The Lomé Convention binds the Community in a contractual relationship covering aid and trade with 64 developing countries. The Common Commercial Policy governs its trade relations with the rest of the world. The Community takes common action in international economic organisations. There is the network of Association and Cooperation agreements both with individual countries and with groups such as ASEAN and the Andean Pact. The growth of Political Cooperation enables the members of the Community increasingly to adopt common positions on world problems and to vote together in non-economic international bodies. Our aim for the future should be to bring about a greater coherence between these different elements. In that way

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a common external policy could be progressively achieved.

16. The US will remain central to European security and the management of East-West relations, and no less so in the management of the problems of the world economy and trade. Our task must be to ensure that Europe plays no less central a role in all those respects. By common action of the Community and the Ten, Europe must impress on the US that unilateral American action, eg on technology transfers, extra-territoriality, unitary taxation and, above all, protection for US industries will put the success of Alliance consultation and coordination at risk. Equally we must be ready in Europe to make progress towards the liberalisation of our trading practices, and to play a full part in strengthening the GATT trading system. Mechanisms for consultation and coordination between the Allies are already in place. What we need is the will on both sides to use them to get results: bilaterally, within the Alliance, and on behalf of the Community and its Member States.

17. Europe is more than Western Europe alone. By the end of this century we could see the Soviet Union with increasingly serious economic difficulties and growing problems in Eastern Europe. At that stage more than ever, a coherent and persuasive

/West

West European voice will need to be heard on the management of East-West relations. Europeans have their own interest in economic relations with the Soviet Union and East European countries, illustrated by the level and intensity of their political contacts with them. They should reflect on the special status this gives them, and on the scope it offers for a more coordinated approach on wider questions, eg the encouragement of a more differentiated economic and social development in Eastern Europe. Steps of this kind will strengthen the European political entity and enable it to act more effectively in relation to the major international issues which legitimately concern it.

18. The Community must also use its weight to influence the other major industrialised economies to shoulder their share of responsibility for the world economy: the United States by paying more attention to the international consequences of its domestic economic policies, and Japan by integrating its financial markets into the world economy and raising the level of its manufactured imports to one comparable with other industrial democracies. The Community must act jointly with these major trading partners to promote the further liberalization of international trade and to extend the open trading system, including a well-prepared new GATT trade round. This would bring the many varieties of developing countries more effectively into the world trading

/system

system, and persuade the more advanced among them to take more responsibility for its good management. Our performance so far in encouraging development in the Lomé countries, in South-East Asia, in Latin America, and in many other countries through our food aid and non-associates programmes is commendable. But there is room for better coordination between Member States, the Community and other donors to secure maximum political as well as developmental effectiveness from our aid.

19. In Political Cooperation, the Ten need to act with more vigour and greater purpose. Cooperation should not just be a matter of making declarations in the face of increasingly complex challenges. The Ten have the weight and must show more political will to act together: concentrate their efforts where their leverage is greatest and their interests most directly touched e.g. in the Middle East and Africa; and recognise that influence does not last if not backed by the necessary resources. Member States must take more seriously their solemn commitments to consult and take account of partners' views and work for common positions. The objective should be the progressive attainment of a common external policy.

Defence and Security

20. Our objective must be to strengthen the European pillar of the Alliance and improve European defence cooperation.

21. Europe already carries a heavy defence burden within the Alliance - although some of its members take a greater share of that burden than others. It contributes to security both on this Continent and in the wider world by a variety of political and economic as well as military instruments. This contribution is far greater than is understood in the United States. If such views are not corrected, the temptation will grow for America, under pressure from the Congress, to look more toward interests outside Europe. Yet the US strategic commitment to Europe will remain an irreplaceable guarantee of Western security. If we wish to preserve it and ensure that our views continue to be given due weight by future US Administrations, the European Allies must find answers to some difficult questions: Are we able to take on a larger share of the responsibility for their defence? How should we respond to renewed public questioning of defence policy? Or the need to develop new technologies at a time of rising costs and resource constraints? The answers make it evident that such problems have to be tackled jointly.

22. Most work to coordinate European positions on this so far has been done in the NATO framework, particularly in the Eurogroup and the IEPG (which has the merit of including France), and there is still more that could be done to exploit the potential of these groupings. We must continue to work for the implementation of the Genscher/Colombo Solemn Declaration of

/19 June 1983

19 June 1983 which provides a helpful reaffirmation of the Community's political and economic objectives. But if we want early progress - and an early chance to demonstrate our seriousness - we must be willing to look at new openings including those offered by the WEU.

23. Procedure and new organisations are no substitute for content and action to solve existing problems. We have to be prepared to make efforts before we can pool them. Progress demands in particular that we focus on the resource allocation and defence industrial aspects of the problem. We should be able to achieve better value for money by common procurement and collaborative manufacturing projects, recognising (as past experience has always shown) that this process will give rise to very real political problems and difficulties for which there are no facile solutions. Individual projects are probably best organised on a case-by-case between those member countries with the capacity and wish to undertake them, making use of the framework of the IEPG. But the general prospects for them could be greatly improved by progress towards a more integrated European industrial and technological base, and by strengthening the Community's internal market. These are areas of proper Community concern which need our urgent attention.

/Organisation

Organisation and Institutions

24. There are several areas in which specific improvements can be made. With regard to the Community:

(a) The Commission's role is central to the functioning of the Community. It is crucial that it should attract, and that Member States should appoint, individuals of the highest calibre with a clear recognition of the tasks to be done. After enlargement the Commission still needs to be able to provide real jobs for people of the best quality. A Commission of 17 is liable to be too large for efficiency or to provide all members with serious portfolios.

(b) The Presidency also plays a key role in the management of the Community's business. Its effectiveness would be enhanced by greater cooperation between the Presidency in office and the preceding and succeeding Presidencies.

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/(d)

(d) When the Commission reviews its legislative proposals each year, there should be a thorough weeding out of hopelessly blocked items and unnecessary cases of obstruction brought to the notice of the Council.

(e) The voting provisions of the Treaty must be fully honoured. Unanimity must be respected in all cases where the Treaty so provides. The same applies for majority voting. At the same time, Member States must be able to continue to insist where a very important national interest is at stake on discussion continuing until agreement is reached. But they should be required in each case to set out their reasons fully.

(f) The European Council should eschew the role of Court of Appeal from the Council. Its true and irreplaceable task is to provide strategic direction and political impetus for all areas of Community work and Member States' cooperation. For this, it might be enough for it to meet no more than twice a year, perhaps for two full days. Alternatively, one of the three annual meetings might be conducted on a more informal "Gymnich-type" framework without advisers. The responsibility for preparing European Councils should rest, as it does now, with Foreign Ministers.

/(g)

(g) In a grouping of democratic European states the directly elected European Parliament must reflect with increasing responsibility the preoccupations and priorities of our peoples. Through the various procedures set out in the Solemn Declaration of June 1983, the Council and Member State need to work out ways of keeping the Parliament better informed, responding to its suggestions and bringing it to work in greater harmony with the main decision making institutions of the Community.

(h) Once the post-Stuttgart negotiation has been completed it should be possible for Member Governments to take common action to present the Community to their peoples in a more favourable light. It is important that people should receive an objective picture of the present state of European integration. It would be desirable for Foreign Ministers, at an early informal meeting, to discuss this question and, if possible, to agree on some common themes for Governments to put forward in their presentation of the Community and of the issues under discussion in it.

/Conclusions

Conclusions

26. The European Community and the Alliance jointly have brought an unprecedented period of peace and prosperity to the peoples of Europe. We cannot rest on the achievements of the post-war generation. Over the next decade Europe will face new economic and social challenges, and a continuing threat to her security.

27. Periodic expressions of pessimism about the future of the Community have never turned out to be justified. Europe needs to advance its internal development. The progress that has been made towards "an ever-closer union of the peoples of Europe" of which the Treaty of Rome speaks in its first paragraph is unlikely to be reversed.

28. The objectives now must be to:

- strengthen democracy and reinforce political stability in Europe. This means bringing to a successful conclusion the accession negotiations with Portugal and Spain;
- develop a dynamic society in which industry thrives and activities which create wealth are encouraged. To do so, we must complete the internal market, particularly in the services sector;
- strengthen the European pillar of the Alliance and the contribution Europe makes to its own security;
- promote policies which will improve the quality as well

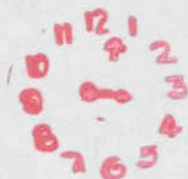
/as

as the standard of life in the Community with due regard for the needs of economic and industrial efficiency;
environmental considerations must count for more than they do today;

- agree urgently on certain organisational changes;
- adopt policies which will guarantee the relevance of the Community to the problems, particularly unemployment, which affect our societies;
- take the necessary steps to strengthen the voice of the Community and make its influence felt in the world;
- heighten the consciousness among our citizens of what unites us.

Evko for Budget Pt 25

05 JUN 1984



Prime Minister.

According to Attali, Mitterrand wants a settlement at Fontainebleau and is prepared to contemplate movement.

A.S.C. 5/6.

Ref. A084/1613

MR COLES ✓

On my return from France on Saturday 2 June I broke my journey in Paris to meet Monsieur Attali, the President's Special Adviser, at his request.

2. The main purpose of our meeting was to enable him to give me the French amendments to the draft declarations from the London Economic Summit. I am reporting separately on these.
3. We also had some discussion about the handling of European questions. Monsieur Attali asked me how we saw the future handling of these matters, and particularly the European budget question. I said that we recognised that there was no possibility of resolving them before the European elections, but that we were keen to reach a settlement on the outstanding questions at the European Council at Fontainebleau on 25 and 26 June, so that that meeting could look forward to the future development of the Community. The Prime Minister had been encouraged by her last conversation with President Mitterrand to think that it might be possible to resolve the budget question at Fontainebleau. I was sure that Monsieur Attali would understand that it would be impossible for the Prime Minister to make any move on the percentage limit on "own resources" except in the context of a satisfactory solution of the budgetary questions, including control of expenditure as well as the British contribution. But time was short; and, if there were to be any possibility of a settlement at Fontainebleau, there would need to be further confidential discussions, before the European elections, between the British, French and German Governments. I assured Monsieur Attali that we would try to fit in with anything which the French Presidency might propose on that.
4. Monsieur Attali said that the French President was keen to reach a settlement on these matters quickly at the Fontainebleau meeting, in order that that meeting could look forward to the future development of the Community. He thought that these

matters were most likely to be settled in the French Presidency; and he was in no mood to bequeath the laurels of achieving a settlement to Dr FitzGerald. We could take it that the President would be looking for a settlement. The question in the President's mind was whether the Prime Minister was willing to move.

5. I said that I thought that the Prime Minister had made it clear to the President, at their last meeting, that she did have some limited room for movement. Monsieur Attali interjected that, if that was so, that had not been clear to him at the time. I said that I was in no doubt that the Prime Minister had intended to convey readiness to make some movement, if others were also prepared to move. What she could not contemplate was "salami tactics", whereby she made a move and that move immediately became the basis for demands for a further move. We had to find some way between now and Fontainebleau of discovering whether there was a basis for a settlement in which there was some movement on both sides. The Presidency would find us flexible as to how the settlement should be expressed. It could be expressed in terms of a 1983 reference figure somewhere between the 1,000 mecu which was the final position of others in Brussels and the 1,250 mecu which was the Prime Minister's final position; or, if this seemed preferable, the settlement could be defined in terms of the various limits and percentages involved in the constituent parts of the system. It would be essential from our point of view that the system proposed by the Presidency at Brussels should not be watered down.

6. Monsieur Attali indicated that the French President was prepared to contemplate some movement in the interests of a settlement. As to modalities, he agreed that there would need to be confidential conversations between the British, French and Germans before Fontainebleau and indeed before the European elections. He envisaged that Monsieur Dumas might be in touch with the Foreign and Commonwealth Secretary. I said that I thought that that would be entirely acceptable and welcome to



us. I added that I should myself be visiting Paris again on 12 and 13 June, to report to the OECD on the results of the Economic Summit, and I could use that occasion to come to see Monsieur Attali on European questions, if that seemed to be convenient and useful.

7. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

RIA

ROBERT ARMSTRONG

4 June 1984

CONFIDENTIAL

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

4 June, 1984

Prime Minister.

will reading before the

Summit. A.F.C. 4/6.

Dear John

French and German Ideas on the Future of the European Community

President Mitterrand's speech to the European Parliament last week (my letter of 24 May) and the subsequent Franco-German Summit on 29 May have prompted a good deal of speculation about Franco-German ideas on the future development of the Community.

The Foreign Secretary considers that by far the most effective way of influencing the debate, and injecting greater realism into it, is by putting forward our own ideas on the lines set out in the paper for Chancellor Kohl which we have sent you separately. This will enable us to help set the agenda for the discussions likely to take place at and after Fontainebleau in a manner consistent with our interests.

The ideas President Mitterrand has so far put forward on European union are somewhat ill-defined; and no formal proposals have yet been made. President Mitterrand was playing to the gallery before the European Parliament and wishes to be seen in France to be trying to put his own stamp on the Community, thereby stealing some of the opposition's clothes during the European election campaign. There is no doubt that ideas of this kind have been advanced in a manner designed to appeal to Chancellor Kohl.

There is an obvious tactical element in the French approach. President Mitterrand's speech was thin on firm commitments. For example, he endorsed the European Parliament's "inspiration" in proposing a treaty on European Union - not the terms of the treaty itself. There is therefore comparatively little of substance in the speech with which we would disagree. I enclose a paper which analyses the ideas in President Mitterrand's speech and suggests how we might comment on each of them as need arises.

In his comments to the press in France last weekend Sir Geoffrey Howe dismissed any suggestion that talk of a two tier Community was addressed to us. He pointed out that we are major participants in every aspect of European activity, not least the defence of Europe; that on many issues we wish to move further and faster than our partners (eg on completion of the internal market): and that already different member states combined in different grouping for different purposes eg Airbus and Jet.

CONFIDENTIAL

/Sir Geoffrey

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Sir Geoffrey Howe considers that it will be important, in the bilateral discussions in the margins of the Economic Summit, to continue to make clear that we intend to play our full part in the further development of the Community. The opportunity should also be taken to remind other European leaders that the future development of the Community is not an alternative to solving the Community's present difficulties - its future viability depends on solving those difficulties first.

Sir Geoffrey Howe will be sending the Prime Minister some further thoughts on the handling of Community issues, particularly budget imbalances, in the meetings she will be holding in the margins of the Economic Summit with President Mitterrand, Chancellor Kohl, Signor Craxi and M. Thorn.

I am copying this letter and enclosure to David Peretz (HM Treasury), Callum McCarthy (DTI), Ivor Llewelyn (MAFF) and Richard Hatfield (Cabinet Office).

A handwritten signature in blue ink, appearing to read 'R B Bone', written in a cursive style.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

PS You may also have seen the editorial comment on this theme in the Daily Express on 31 May: copy enclosed.

CONFIDENTIAL

PRESIDENT MITTERRAND'S IDEAS ON THE FUTURE DEVELOPMENT OF THE
EUROPEAN COMMUNITY: COMMUNITY INSTITUTIONS

1. In his speech to the European Parliament on 24 May, President Mitterrand put forward the following ideas:

(a) The unanimity rule for decision-taking in the Council of Ministers had been taken too far - even further than was envisaged in the Luxembourg Compromise. This was a recipe for total inaction. The French Government had already proposed restricting the use of the Luxembourg Compromise to clearly defined instances. The fact that majority voting on important questions has already become more common showed that a return to the Treaty had begun.

(b) The European Council should no longer be used as a permanent Court of Appeal. The Commission and the Council of Ministers should fulfil their responsibility for the conduct of Community policies. The European Council should establish the broad objectives. The European Council should have a permanent secretariat for political cooperation.

(c) Relations with the Parliament should be improved by a modified conciliation procedure.

(d) Thought should be given to means of providing greater continuity between Presidencies.

(e) Each new situation in the Community required a new method of approach. The Parliament had proposed a Treaty of European Union. France supported the inspiration behind this idea. There should be a preparatory discussion which might lead to a conference of interested Member States.

(f) While not explicitly supporting the idea of a two-speed Europe, President Mitterrand implied support for flexible arrangements to enable the Community to respond to particular needs. He cited as examples of areas where Community cooperation already went further than was laid down in the Treaty of Rome: education, health, justice, security and the fight against terrorism.

/Analysis

Analysis of French ideas on Institutional Reform(i) Majority Voting

2. Article 148 of the Treaty of Rome provides that "save as otherwise provided in this Treaty, the Council shall act by a majority of its members". The Community is committed, by the Genscher/Colombo Declaration of June 1983, to observe the decision making procedures laid down in the Treaties, and to taking "every possible means of facilitating the decision-making processes, including, in cases where unanimity is required, the possibility of abstaining from voting".

3. When the Declaration was signed, all Member States made entries in the minutes, recording their positions on majority voting. The United Kingdom (and Denmark) recorded their view that "when a Member State considers its very important interests to be at stake, discussion should be continued until unanimous agreement is reached". The French recorded their view that voting should be postponed "if one or more Member State so requests in order to defend an essential national interest directly related to the subject under discussion, which they confirm in writing". The only formal differences between the French and UK positions on majority voting are, therefore, the French view that the national interest involved should be directly related to the subject under discussion and should be confirmed in writing.

Comment

4. President Mitterrand does not appear to have gone any further than the existing French position. Other French Ministerial comment has been similarly guarded. There does not appear to be any intention to extend majority voting to areas at present requiring unanimity. President Mitterrand made no reference to the recommendation of the European Parliament, in their draft Treaty of European Union, that the practice of unanimity should be phased out over 10 years.

/Line to take

Line to take

5. We favour recourse to majority voting where the Treaties so provide, unless a member state judges that a very important national interest is at stake, in which case discussion should continue until agreement is reached. The number of occasions on which the Luxembourg Compromise is invoked is in fact minimal. We do however agree that the Council has fallen too much into the habit of seeking unanimous agreement even where no major interest is at stake. We therefore agree with the aim, already inherent in the Treaties and confirmed in the Genscher/Colombo Declaration, that we should try to improve decision-making processes. The Treaty provides for unanimity in a large number of cases. So more often it is a question of mustering the collective will to take action than one of specific blocking measures by individual Member States vis for instance the lack of progress on achieving a common market in services.

(ii) Role of the European Council/Permanent Secretariat

6. It is not clear exactly what the French have in mind. In a speech on 23 May, the French Minister for European Affairs, M Dumas, referred to the idea of a Permanent Secretariat to prepare European Council meetings, saying that it should form part of the Secretariat of the Council of Ministers working to an Assistant Secretary General. It should not be composed of separate representatives of the ten Member States. President Mitterrand's words were ambiguous. He appeared to refer to the need for a secretariat to support the political coordinating functions of the European Council. M Cheysson, however, in discussion at last weekend's informal meeting of Foreign Ministers, said that Political Cooperation could be made more effective with a permanent, skilled staff ie implying a secretariat to service political cooperation meetings at Political Director and Foreign Minister level.

7. The Germans have not so far put forward their own ideas, but our Embassy in Bonn have been told by the Chancellor's Office that the Germans also have in mind a Secretary General to serve the
/European

European Council and the Presidency. The Secretary General would head a staff of about thirty people, who would prepare the work of the European Council and also provide a secretariat for Political Cooperation.

Comment

8. We are not persuaded of the merits of a Political Cooperation Secretariat to be grafted on to the Council Secretariat in Brussels. The real business of Political Cooperation takes place in the Presidency capital, under the direction of the Presidency Foreign Minister and Political Director. Even with a Presidency Secretariat in Brussels, all important Presidency activity would continue to take place in the capital of the Presidency. The Secretariat in Brussels would have little to do and no obvious place in the decision-taking processes in Political Cooperation. The situation would change if Political Cooperation became Brussels-based - like Community activity - but this would be resisted by some Member States, including, probably, the French.

9. We also question the need for a Permanent European Council Secretariat. The Foreign Affairs Council is responsible for preparing European Councils and the creation of a Permanent Secretariat could affect the authority of the Council, contrary to President Mitterrand's declared aim of enhancing the Council's authority. We should not, however, oppose a small Secretariat if that were the general wish of other member states, there was a proper relationship with the Council Secretariat and it was clearly understood that it did not affect the authority of the Council of Ministers.

Line to take

10. We very much agree that the European Council should not simply be a Court of Appeal from the Council. Its true and irreplaceable task is to provide strategic direction and political impetus for all areas of Community work and Member States' cooperation. We agree on the need to look at ways of making the work of the European Council more effective. We might look at the
/structure

structure of European Council meetings. There may be a case for one of the annual meetings being conducted on a more informal basis than at present without advisors. The European Council should also consider setting out each year a brief and succinct statement of priorities to guide the work of individual Councils and to give a public statement of its targets and priorities. At the same time, to ensure that the Community's agenda is not overloaded, the Commission might conduct a rigorous review of existing proposals so that those which are hopelessly blocked can be weeded out, and those which remain a priority but are unnecessarily obstructed can be brought to the notice of the Council.

11. As to the idea of a Permanent Secretariat, we look forward to hearing more about French ideas. It is important not to proliferate bureaucracies. We must make maximum use of the existing Council Secretariat. It will be important not to undermine the role of Foreign Ministers in preparing the European Council. There may be a case exceptionally for some additional preparation by representatives from capitals, plus Permanent Representatives, to review matters likely to arise in the Summit, and to draw the attention of Foreign Ministers and Heads of Government to any particular objectives and linkages with other business.

(iii) Conciliation

12. The Joint Declaration between the Council and Parliament of 4 March 1975 agreement was designed to avoid a situation in which the Parliament's opinion on draft legislation was simply overridden by the Council if Council and Parliament happened to disagree. It provided for a conciliation procedure between Council and Parliament where the two were in disagreement on draft legislation covering proposals "with appreciable financial implications". The Solemn Declaration of June 1983 provided that the Council would enter into talks with the European Parliament and the Commission with the aim of improving and extending the scope of this conciliation procedure to all important items of proposed

/Community

Community legislation.

13. The French Presidency have now put forward a text designed to implement the commitment in the Solemn Declaration. The UK's response to the French Presidency proposal is currently the subject of inter-Ministerial correspondence. Given the fundamental opposition of the Danish parliament to extension of conciliation, formally recorded when the Solemn Declaration was adopted, early progress is unlikely. If agreement is reached in the Council, there will then have to be discussion with the Parliament and the Commission to agree a new Joint Declaration.

Line to take

14. French Presidency have put forward detailed proposals as to how the commitment in the Solemn Declaration to improve and extend the scope of the existing conciliation procedure should be implemented. These proposals are being discussed in Brussels. It is now a matter of agreeing how best this might be achieved.

(iv) Greater Continuity Between Presidencies

15. In Political Cooperation a Troika system already operates, whereby the Presidency country associates the outgoing and incoming Presidencies with its work. The French have not spelled out what in detail President Mitterrand might have in mind as regards the Council.

Comment

16. The Presidency has become very important, particularly in relation to the Parliament, due to the increased range of subjects dealt with by the Community. This puts greater pressure on the Presidency to come forward with suitable proposals and to negotiate compromises. At the same time, the Council and its members are acquiring more obligations to represent the Community vis à vis other countries and institutions. There are stresses and weaknesses in the present system:

- (a) The general problem of a lack of continuity between Presidencies which leads to an element of "stop-go" in the
/conduct

conduct of Council policies.

(b) The difficulty which the Presidents of Specialist Councils find in getting to grips with their subjects during their six months tenure.

(c) The difficulty in steering initiatives to agreement within one Presidency period. Sustained political effort over two or three Presidencies is usually needed. Present arrangements however leave much to chance on the extent to which the subsequent Presidency will pursue the policies of its predecessor, even when policy aims are widely shared by other Member States.

(d) Some Presidencies, particularly the smaller ones, have problems meeting all the commitments which the Presidency imposes on Ministers. The European Parliament alone involves about 40 Ministerial attendances during the Presidency.

17. The idea of a Troika for Council business, ie cooperation between the existing Presidency and the incoming and outgoing Presidencies, has been aired before but could be unnecessarily cumbersome. The alternative approach might be to formalise an arrangement under which the Presidency would associate the incoming Presidency with some of its work. The aim would be to provide political continuity, to run in the next Presidency and to relieve the load on the current Presidency. It would be for the Presidency in Office to determine how this would work in practice. Obvious examples of tasks which could be delegated are aspects of relations with the European Parliament and perhaps some functions vis à vis third countries.

Line to take

18. Agree that the burdens on the Presidency are now such that some means should be found to alleviate the load and of forging greater continuity between Presidencies, particularly where policy initiatives need to be sustained between one Presidency and another. We would be in favour of looking at ways of associating the incoming Presidency with the work of the existing Presidency. This would not be a question of creating a new Community

/institution

institution, but of finding practical ways of making the present set-up more effective.

(v) European Union

19. The European Parliament's draft Treaty of European Union, while based on the provisions of the existing Treaties, would provide for the formal union of all Member States which would have a collective legal identity. The Treaty would also enhance the powers of the Parliament by giving it joint legislative authority with the Council. Member States' ability to have majority votes deferred would be phased out over a ten-year period.

20. President Mitterrand did not endorse the details of the draft Treaty, merely its inspiration and the concept of European Union. The French Government would have just as many difficulties with the detailed provisions of the Treaty as the UK. Nor would they be likely to go as far as the Germans who appear to be thinking in terms of a commitment towards European Union on federal lines: a United States of Europe.

Comment

21. All Member States are already committed by the preamble of the Treaty of Rome to "an ever closer union among the peoples and Member States of the European Community". Member States also committed themselves, in the Solemn Declaration of June 1983, to "transform the whole complex of relations between Member States into European Union". The Declaration also committed the Community to a general review of progress towards European unification no later than five years from signature of the Declaration and to deciding, in the light of that review, whether progress achieved should be incorporated in a Treaty on European Union.

Line to take

22. We are committed, by the Treaty of Rome, and by the Solemn Declaration signed by Heads of Government last year, to work towards European Union. The Solemn Declaration looks forward to a
/review

review in 1988 including the question of whether a Treaty of European Union should then be drawn up. If any Member State has specific proposals for change or addition in the meantime, we shall be ready to consider them. President Mitterrand made clear that he was not talking about changing the existing Treaties but of supplementing them as necessary. What is needed now is a greater mobilisation of the political will of Member States to make headway in the framework of the existing Treaties. That is one of the things that has emerged during the French Presidency, eg the new thrust being made for the removal of frontier restrictions; the new thrust being made for the adoption of a Common Standards Directive; the new thrust being made for a more quota-free road transport policy and the commitment to a better Community air transport policy. Those are things that can be done and should be done within the existing framework. We can look within the arrangements already in place at what more would be possible or desirable in terms of the Treaty.

(vi) Two-speed Europe

23. Talk of a two-speed Europe has been increasingly prevalent over the last six months. Following the failure of the Athens European Council last December, Chancellor Kohl implied that the original Six must get together to make progress if agreement could not be reached among the Ten. Belgium and Luxembourg have made similar suggestions, more explicitly directed against the United Kingdom. Before President Mitterrand's speech there had been references by French Ministers to the possibility that, if the Community could not reach agreement on the post-Stuttgart negotiation, those Member States interested in making progress should meet to decide the future course of action.

24. In an interview following President Mitterrand's speech to the European Parliament, M Dumas denied that President Mitterrand had been suggesting a conference of less than ten Member States or that he had aimed his remarks about a two-speed Europe at Britain. He had simply wanted to leave a certain flexibility. The hard core of the Community was the Six. One could build on that in
/concentric

concentric circles of different dimensions. M Dumas said that he was in favour of doing as much as possible at the level of ten and had noted Sir Geoffrey Howe's statement Britain did not intend to be left out of new projects.

Comment

25. There is no doubt that much of what President Mitterrand said was directed at the practical problems facing the Community: the role of the Community already carried it beyond the framework of the Treaty of Rome into areas such as health, education, justice, security and the fight against terrorism. Each time that the Community had faced a new issue it had created an institution to deal with it, eg the European Council, Political Cooperation, or the EMS. Equally, of course, it serves French purposes quite well to hint that, if Britain does not play the game according to the rules laid down by the Six, they will leave her behind - including in areas where exclusive Franco-German cooperation could be damaging to our interests.

26. The UK draws a distinction between the requirements of Community practice as laid down by the Treaties, which do not permit a two-speed Europe, and practical developments where flexibility makes sense. We do not oppose pragmatic groupings of Member States for particular purposes. For example, we ourselves do not participate in the exchange rate mechanism of the EMS; UK is part of the Airbus project; some other Member States are not. France and Germany are embarking on bilateral arrangements to diminish frontier formalities. Our policy is that action undertaken in the Community framework must continue to be on the basis of equal rights and equal obligations. For practical reasons, it may make sense for participation in some new ventures to be optional provided that it is open to other Member States to join in as and when they are able to do so.

Line to take

27. The Community is in some respects already a variable geometry Community and a multi-speed Community in the sense that there are different partnerships and different groupings between different

/Member States

Member States for different objectives. Participation of all ten Member States in every enterprise is not practical. But there should be no rigid distinctions between different groups of participants. The possibility of action financed by the Community, or with Community law as its legal base, should be examined before it is decided to proceed on a more limited basis. Britain is a member of every one of the European organisations, from NATO to the EC: a full member and a fully participating member of all of them. We want a high speed Community. In many aspects of what the Community wants to achieve, Britain is pressing faster and more energetically for progress than many of our partners. But the idea of separating the Community into two speeds would lead to some very curious divisions because at different times different Member States have been more or less reluctant than others to move ahead. How the Community operates as a Community is laid down by the Treaties and what we want is the fastest possible progress within that framework.

A chance to right Europe's balance

PRESIDENT MITTERRAND of France and Chancellor Kohl of Germany are getting a little too close for comfort. A Paris-Bonn axis running Europe is bad news for Britain. Preventing such domination was a prime reason for us joining the Common Market.

But sulking, mere negative opposition, will do no good. We must use our talents to turn the dual alliance into a triple alliance.

M. Mitterrand has urged greater European collaboration in defence, space, aviation and technology. We should take him up on this.

British inventiveness, French flair, and German efficiency would prove a formidable combination in a world where the Americans — with the Japanese coming up fast — are disproportionately strong.

Mrs Thatcher should use the opportunity of the Economic Summit meeting in London next week to take the initiative in righting the European balance of power which could tilt dangerously against us.

EURO POZ: Budget Pt 24

80 JUN 1984

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6 7 8 9



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FOREIGN SECRETARY

EC BUDGET NEGOTIATIONS

Although the Community Budget negotiations are currently in a lull, they are likely to be resumed quickly after the European elections. We need therefore to consider again what our attitude should be during the next few weeks.

2. The central issue at Fontainebleau will be budget imbalances. But we shall need to deal also with three other issues which will inevitably be linked with the main negotiations. There are the 1984 overrun (for which the Commission has proposed that there should be a 2.3 billion ecu loan from member states), the financing of our 1984 refunds and the 1985 budget. I minuted to you on the first of these on 1 May and Ian Stewart's office wrote to John Coles on the third on 23 May. We need to consider these issues in advance in the context of a satisfactory budget imbalances settlement. Of course, if no such settlement can be achieved, there will be no question of our agreeing to additional financing for the Community either through an increase in own resources or through any other devices.

3. The attached paper, prepared by my officials in consultation with the Foreign Office and the Cabinet Office, considers in paragraphs 17-21 four broad options for tackling this problem. They can be summarised as:

(i) bringing forward the proposed increase in own resources to 1.4 per cent from 1986 into late 1985. The 1984 overrun would then be financed nationally and reimbursed out of the 1985 budget, which would also provide for our 1984 refunds; but the earlier increase in own resources would also enable there to be additional expenditure in the 1985 budget;

(ii) leaving the own resources increase to come into effect in 1986 as in the provisional March European Council conclusions, but conceding supplementary finance for the 1984 overrun by means of an article 235

Prime Minister.

You will wish to consider this -
but, I suggest, after the Economic
Summit. Meanwhile, await Foreign
Secretary's view? A.D.C. 4/6

cc. No
PC
②



regulation and, similarly, providing for payment of the 1984 refunds through an article 235 regulation;

(iii) leaving the own resources increase to come into effect in 1986 but refusing any supplementary finance for agriculture in 1984 or 1985 over the 1 per cent VAT ceiling. As in (i) any overrun expenditure in 1984 (and 1985) would have to be financed nationally though in this case with reimbursement deferred until 1986. This option would almost certainly mean that we should not get our 1984 refunds until 1986, though we should of course expect to get the 1983 refunds before the end of this year;

(iv) simply deferring decisions on the three issues in the hope that the rest of the Fontainebleau package can be settled first.

4. The fourth of these options seems unrealistic. Our partners will expect a firm commitment from us to contribute to supplementary financing to meet the 1984 overrun as part of the overall package.

5. Of the other options, option (iii) seems to me the least unattractive. It should enable us to maintain a tighter squeeze on the 1985 budget (which will be first discussed at the July Budget Council); and it would be more consistent with our position hitherto on increasing the Community's own resources. This is therefore my preferred option.

6. It is however possible that other member states will press instead for option (i). There are disadvantages in this course: most notably, it could weaken our position in the 1985 budget discussions. However, if it enabled us to get a better overall settlement, I accept that we should be prepared to fall back on this option, but in doing so I would suggest that we seek two further provisos. First, it should be an essential part of the arrangement that the 1984 overrun should be nationally financed in the first instance. Second, we should want to do all we could to ensure that, despite the bringing forward of the own resources increase, strict discipline was applied to the 1985 budget, in particular to CAP expenditure. We may indeed need to insist that the initial 1985 budget is adopted within the 1 per cent VAT ceiling and that the call-up of additional own



resources is limited to covering exceptional and unforeseen needs from Autumn 1985 onwards.

7. The least attractive of the options is option (ii); in particular because, as explained in paragraph 19 of the paper, any supplementary finance we contributed during 1984 would almost certainly be ineligible for refunds under the corrective mechanism and would thus mean a substantial addition to our budgetary burden this year. I would only therefore think this worth entertaining as a last resort if it were the only way of getting a good imbalances settlement. But we would need to fight very hard to secure some compensation for our additional contribution in 1984.

8. For the above reasons, my preference is for option (iii), and I suggest that we should approach the negotiations on this basis. The Prime Minister, will, however, want to have the maximum negotiating flexibility at Fontainebleau to get the best deal possible on Budget imbalances and I would therefore be prepared to accept option (i) as a fall-back. There must, however, be no question of advocating this course in advance; if we did resort to it, it should be as a concession to get a better overall settlement than would otherwise be possible.

9. I should be grateful for your reactions. I am sending copies to members of OD(E), the Prime Minister, and Sir Robert Armstrong.

David Pertz

pp

(N.L.)

4 June 1984

(approved by the Chancellor and
signed in his absence)

BUDGET: 1984 OVERRUN, 1984 REFUNDS AND THE CURRENT NEGOTIATIONS

There are three short-term Community budgetary issues which are beginning to impact in various ways on the main negotiations on the future financing of the Community. These are:

- (i) the Commission's proposal for a loan to finance the 1984 overrun;
- (ii) the implementation of the provisional agreement on 1984 refunds; and
- (iii) the problem of how to approach the 1985 Community Budget.

This paper considers the links which exist or which are likely to be made between these issues and the main negotiations; and the implications of these links for the UK's objectives and our tactical approach to those negotiations.

Background

2. The Commission's proposal on the 1984 budget overrun was analysed in the paper attached to the Chancellor of the Exchequer's minute to the Foreign Secretary of 1 May. The Government's basic position was stated by the Minister of Agriculture at the price fixing: CAP expenditure in 1984 must be accommodated within the existing budgetary provision and, if budgetary problems arise in 1984 (or 1985), the Commission should take the necessary steps to reduce expenditure to the permitted level.

3. At the May Foreign Affairs Council, further work was set in hand to examine the size of the financing gap, the scope for savings and the options for financing the remaining gap. The Germans and French opposed the Commission's loan proposal. Several delegations stressed the need for decisions before the summer, and President Thorn drew an explicit link with the package of issues to be settled at the June European Council. We have had separate reports that several member states are likely to refuse to agree to a solution on the budget imbalances aspects of the main negotiations without a simultaneous agreement on financing the 1984 overrun. Meanwhile, the Germans (or at least their Finance Ministry) have told us they

would prefer national financing (probably with reimbursement) to a loan; and the European Parliament has expressed opposition to the Commission proposal (but without rendering a formal opinion), although they favour some form of supplementary financing.

4. On 1984 refunds, the March European and Foreign Affairs Councils provisionally agreed to an ad hoc figure of 1000 mecu net. The draft Presidency conclusions went on to state that:

"It [ie. the 1984 refund] will be paid in 1985 in accordance with procedures to be determined, which will not affect the level of Community expenditure."

There have been no discussions of how these conclusions should be put into effect. The Commission has not proposed anything in its 1985 preliminary draft Budget, although the introduction says that they are willing to put forward appropriate proposals when final decisions are reached. As it stands, the text on 1984 refunds is open to different interpretations; there is accordingly scope for other member states to make considerable difficulties over its implementation.

5. On the 1985 Budget the Commission has proposed a preliminary draft Budget (PDB) providing for an increase of 17 per cent in FEOGA guarantee compared with the original 1984 budget provision; an increase of nearly 13 per cent in non-obligatory expenditure compared with a "maximum rate" of 8½ per cent; and a resultant excess over currently available own resources of just under 2 billion ecu. The Commission proposes to meet this excess by inviting member states to ratify the new own resources decision in time for new own resources to become available by 1 October 1985. However, they recognise that this may not be possible, and they suggest as a fallback a further loan under Article 235, on the pattern of their proposal for 1984.

6. A separate note on our approach to the 1985 Budget is being prepared. For the present paper, it is sufficient to note that the July Budget Council, which will establish the Draft 1984 Budget, will be extremely difficult. We may find it hard to secure the

necessary support to bring the draft back below the 1 per cent ceiling; there may be deadlock; or, at worst, we might be outvoted by qualified majority (although it must be doubtful whether other member states would be prepared to acquiesce in a budget of doubtful legality).

7. Although our public position has been that the Commission's loan proposal for 1984 is a separate issue to be treated on its merits and not one which is connected with the great negotiations, in practice it and the other issues above are and will be related to each other. Indeed, the paper attached to the Chancellor of the Exchequer's minute recognised this:

"Provided satisfactory agreements are reached on budgetary imbalances and budgetary discipline, it may be necessary, as part of the deal, to consider conceding some element of supplementary financing".

The Prime Minister has also told the House that "we could not agree [to the loan proposal] until other things are settled". Moreover, even if the others do not explicitly link the 1984 overrun with the budget imbalances problem, they are bound to link the implementation of the 1984 refunds (which will require a separate agreement) with the Commission's loan proposal. And, if the 1984 overrun has not been settled, this will add to pressures on the 1985 Budget and make the task of the July Budget Council even harder.

8. Linkage is thus inevitable. But, although other member states seem to consider that it will operate in their favour, the balance of advantage could operate in both directions. We are looking for a satisfactory agreement on the budget imbalances mechanism and for definite arrangements for the payment of 1984 refunds. The others are looking for new own resources and an agreement on the financing of the 1984 overrun. It seems quite likely that the "two-way" linkage on these issues will operate as much in our favour as in theirs.

UK and others' objectives

9. Our objectives are:

- (i) a satisfactory settlement on budgetary imbalances incorporating a corrective mechanism to apply with effect from 1985;
- (ii) effective arrangements for budgetary discipline including a strict financial guideline for agricultural expenditure;
- (iii) early agreement on the payment of the 1984 ad hoc refunds, ensuring that there is no scope for difficulties similar to those we have had with 1983 refunds;
- (iv) on the 1984 overrun, to minimise supplementary financing and to ensure that if there has to be any we are properly compensated for our share in it; and
- (v) on the 1985 Budget, to safeguard our interests, and in particular to ensure that agricultural expenditure is reined back.

10. For the most part, the other Nine have interests operating in the opposite direction to ours, although we have some allies on budgetary discipline. In particular, they will not wish to agree a settlement of (i), (ii) and (iii) above without action to meet (iv). And on (v), they will wish to protect the CAP both from the effects of the 1 per cent ceiling and from the demands of nonobligatory expenditure. It is worth also noting that most other member states realise the potential advantage to the UK of financing the overrun in a year (1985) when we get compensation under the budget imbalances mechanism. They may well try to use this in some way as a bargaining counter.

Timing

11. All these issues will come to a head at the Fontainebleau European Council (25/26 June). (The 1985 Budget itself will follow the usual slower procedure, but it will be affected by decisions at Fontainebleau). Preparations for Fontainebleau will be made at the 18/19 June Foreign Affairs Council, which will also be

separately considering the 1984 overrun. We will wish to ensure that 1984 refunds are also dealt with promptly. We accordingly need to decide our line quickly, especially since it may affect bilateral contacts, in particular with the Commission, the Presidency and the Germans.

Line to take

12. On the 1984 overrun, we should be able to continue to argue for agricultural savings to reduce the gap as much as possible. This should get support from the Dutch and Germans. But at the same time, we will have to accept that there is a substantial gap which cannot be met by savings (as opposed to deferment) during 1984.

13. As explained in the Chancellor's earlier paper, the best way to meet this gap would be to defer agricultural support expenditure or its common financing beyond 1984, provided our position in 1985 and future years is protected through the operation of the imbalances mechanism. Deferment would mean rejecting the Commission's loan proposal and any supplementary budget they come forward with. It could take a number of practical forms, all of which would probably imply national financing in November/December, either of expenditure such as export refunds normally prefunded from the Community Budget or of increased intervention, in both cases with reimbursement to the member states to be charged to the 1985 budget (it is clear that others will reject national financing without subsequent reimbursement). The problem of financing the 1985 budget would thus be aggravated.

14. So far as 1984 refunds are concerned, we have accepted that these should be financed "in a way which does not affect other EC expenditure". This phrase could be interpreted to mean, as we would like, that the refunds will be paid on the revenue rather than the expenditure side of the Community Budget - though there are significant legal problems about achieving this result. But whatever the interpretation, it will not be possible to finance the 1984 refunds on either side of the budget within the 1 per cent VAT ceiling. Accordingly, unless the increase in own resources is brought forward into 1985, there appear to be only two ways

of paying the 1984 refunds in that year:

- (i) they could be paid outside the Community Budget altogether; or
- (ii) they could be paid inside the Budget under a special article 235 regulation involving additional ad hoc contributions from member states.

15. There are difficulties about both of these possibilities. On the first, it would be dangerous to rely on separate national legislation in the other Nine member state Parliaments; accordingly a Community legal base would be the preferable option. But there are major legal and political problems over payment outside the Community Budget for an item which is covered by Community legislation. On the second option, there is no realistic alternative to an article 235 regulation, but there are legal difficulties over suggesting such a regulation for a revenue side correction. It might be possible with political will to sidestep these difficulties, but it is unlikely that the others will agree to bend the rules and accept an article 235 regulation for the payment of our 1984 refunds without demanding that we agree in return to finance the overrun under a separate article 235 regulation. There are not, therefore, any easy solutions for the payment of the 1984 refunds.

16. On the 1985 budget, we will aim to bring the draft back within the 1 per cent ceiling, either by inviting the Commission to submit a revised PDB or by insisting on cuts at the July Budget Council - preferably in agricultural expenditure. At the same time, we will wish to protect the Regional and Social Funds from which we are net beneficiaries. Even with these actions, however, it will be extremely difficult to accommodate agricultural guarantee expenditure within the 1 per cent ceiling in 1985. This will be especially true if whatever measures are taken in response to the probable 1984 overrun effectively add to the Community's financing burden during 1985.

Financing implications for 1985

17. The analysis thus far shows that the 1984 overrun, the 1984

refunds and the 1985 budget will between them place great pressure the 1 per cent VAT ceiling during 1985. Indeed, it seems likely that constraining the Community's budget within the 1 per cent VAT ceiling in both 1984 and 1985 without any form of supplementary financing may prevent us achieving all of the objectives set out in paragraph 9. Ministers will accordingly wish to consider the best strategy for us to adopt, both in terms of its general political effect and in terms of its implications for our negotiating objectives. We have identified four possible options.

18. The first is to resolve the 1985 financing problem by bringing forward increased own resources from 1986 into the latter part of 1985, as now proposed by the Commission. It should be possible for the necessary legislation to be ratified quickly following an agreement at Fontainebleau, since most member states (other than the Germans - see below) are anxious to see new own resources come into effect as soon as possible. Points worth noting on this strategy are:

- (i) it would be the surest way of getting our 1984 refunds in 1985, since they could be paid on the revenue side in accordance with the mechanism contained in the new own resources decision;
- (ii) it would enable us to finance the 1984 overrun out of the 1985 budget and thus protect the UK's position provided that the imbalances mechanism applies in respect of 1985. This would also enable us to scotch once and for all the pressure for special loans or other financing expedients; and it would mean we could stick to our view that Article 235 Regulations cannot properly be used to raise additional revenue;
- (iii) against these advantages, the bringing forward of additional own resources would make it more difficult to stick to a firm line on the 1985 budget. We could try to limit additional own resources to the amounts required for our 1984 refunds and the 1984 overrun, but it would be difficult to prevent the Commission, some other member states and the European Parliament using additional own resources to finance higher

agricultural and other expenditure than would otherwise have been possible in 1985, particularly since a number of them (notably Italy), regard an increase to 1.4 per cent as inadequate;

- (iv) there are also major tactical and presentational disadvantages in the UK advocating the early introduction of new own resources. Not only would this sit ill with our general attitude towards budget discipline; it would also make for serious difficulties with the Germans who have publicly and emphatically refused to contemplate the introduction of new own resources before 1986. It might, though, be possible to leave the Commission and/or Presidency to take the lead both in advocating the early introduction of own resources and in persuading the Germans to change their position, in which case we could consider reluctantly acquiescing rather than fervently advocating it, desirably in return for a better budget imbalances settlement;
- (v) finally, although in theory ratification ought to be possible before late 1985, there might be slip-ups in the process somewhere along the line. It could be slightly dangerous to rely on prompt ratification.

19. The second strategy would be to leave the introduction of own resources until 1986, as presently envisaged, but to concede at least some supplementary financing of the 1984 overrun under an article 235 regulation (not necessarily in the same form as the Commission's proposal). At the same time, we would insist on a separate article 235 regulation to pay our 1984 refunds, preferably on the revenue side of the budget. This approach has the following characteristics:

- (i) it would solve the difficulty of getting our 1984 refunds, though less certainly than the first approach;
- (ii) although it would mean additional finance for the 1984 overrun, the aim would be to restrict the provision of funds to this purpose and to payment

of the 1984 refunds. We would argue that there should be no question of additional sums for other activities, including higher agricultural expenditure in 1985;

- (iii) against these points, supplementary finance in 1984 might cost us more than the alternative of increased own resources in 1985, since the budgetary imbalances mechanism does not cover our 1984 net contribution for which we have accepted a flat rate refund. We might argue that we should be compensated in some way for this, but there is no guarantee that we would be successful in pressing our case;
- (iv) although we would avoid the tactical difficulty of advocating the early introduction of own resources, there could still be some criticism of the Government for conceding additional financing over and above the 1 per cent ceiling this year; and we would have conceded the very important principle that an Article 235 Regulation could be used to raise revenue.

be to

20. The third strategy would leave the introduction of new own resources until 1986; but at the same time to refuse to provide any extra finance during 1984 or 1985 above the 1 per cent VAT ceiling. Agricultural obligations above this would have to be met by national financing with reimbursement in 1986. We would also almost certainly have to accept that we would not receive our 1984 refunds during 1985, but we could press for them to be paid as soon as possible in 1986. This strategy has the following features:

- (i) it would be consistent with our general approach to tighter budgetary discipline and also with the Germans' desire not to introduce new own resources until 1986;
- (ii) in accordance with this, it would keep up the pressure on the 1985 budget and enable us to squeeze agricultural expenditure. At the same time, our willingness to accept deferral of the 1984 refunds until 1986 would remove the possibility that others might exert pressure over us in relation to the

financing of the 1984 overrun by refusing to accept a special regulation for payment of the 1984 refunds (they could be covered instead by the new own resources decision itself);

- (iii) against these points, there would be a significant interest cost in deferring our 1984 refunds until 1986. It is not clear that it would be possible to receive the 1984 refunds in the first quarter of 1986 (and thus in our 1985-86 financial year) because we may not be paying enough VAT in that quarter for it to be possible to abate our contributions by a sufficiently large sum;
- (iv) pushing the agricultural overrun and 1984 refunds into 1986, when both the 1985 corrective payment to the UK and the first year of enlargement will also be financed, will put considerable pressure on the new 1.4 per cent VAT ceiling. If there is to be enough money to pay us all our refunds, very firm budgetary discipline will need to be applied to other expenditure, particularly on agriculture;
- (v) there could be some criticism of the Government for failing to secure payment of the 1984 refunds during 1985.

21. The fourth strategy would be to acknowledge that there are problems with both the 1984 overrun and the 1984 refunds, and that the 1985 budgetary procedure will be especially tricky; but to avoid reaching definite conclusions on any of these subjects as early as Fontainebleau. The others will be looking for some commitment on the financing of the 1984 overrun, but we might be able to engineer a rather vague form of words about our willingness to ensure that all the Community's agricultural obligations are satisfactorily met without committing ourselves to a specific method of bringing this about. So far as 1984 refunds are concerned, we in our turn would probably have to be content with the present wording of the Presidency conclusions, which promises that they are to be paid in 1985 but in a way which does not affect the level of Community expenditure. These uncertainties need not affect the main Fontainebleau package which could be settled; and, in

Subsequent discussion of the detailed implementation of the package, of the arrangements for meeting the Community's 1984 obligations and of the 1984 refunds, we could act to ensure that they all proceed in parallel, in practice on the basis of one of the three strategies described above. It must, however, be doubtful whether this strategy could run given the pressures for an early settlement of the 1984 overrun, so we may well be pushed towards one of the other three approaches at Fontainebleau.

HM TREASURY

30 MAY 1984



cc.p.c.

10 DOWNING STREET

From the Private Secretary

4 June 1984

Paper on the Future of the European Community

Thank you for your letter of 1 June enclosing the draft of a paper on the above subject for the Prime Minister to present to Chancellor Kohl.

I note that, apart from the Foreign and Commonwealth Secretary, this paper has not yet been approved by the Chancellor of the Exchequer, the Minister for Agriculture or the Secretary of State for Trade and Industry. Provided their comments can be obtained and the paper redrafted in time to take account of these and the Prime Minister's comments in the rest of this letter, Mrs. Thatcher will be prepared to pass it to Chancellor Kohl during the Economic Summit. I should be grateful if the Foreign and Commonwealth Office could take upon themselves the task of submitting the redrafted paper as soon as possible this week.

BF

With regard to the draft letter to Chancellor Kohl, the Prime Minister would prefer to refer, in paragraph 3, to "a closer union" rather than "an ever closer union".

The Prime Minister's comments on the paper are as follows:-

In paragraph 2, the second sentence should begin with words "Some progress". The third sentence should begin with the words "Some steps have been taken".

In paragraph 4, the Prime Minister finds the reference to Europe being in command of its own destiny unfortunate. This phrase, in her view, has undesirable implications for NATO and for trans-Atlantic co-operation.

/Paragraph 5

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Paragraph 5 should read as follows: "If the European Community is to be effective in the world, it must also be effective in the national life of each of its Member States".

In paragraph 9, the Prime Minister would like the word "highest" in the penultimate sentence to be replaced by "high". She would like the last sentence to begin with the words "Member Governments must act to limit".

The second sentence of paragraph 10 should read "The peoples of Europe must feel that the Community improves the quality of their lives".

The first sentence of paragraph 14 should read "It must be our objective to aim beyond the common commercial policy through political co-operation towards a common approach to external affairs".

In the last sentence of paragraph 15 the word "can" should be replaced by "could".

The Prime Minister has commented, with regard to the third sentence of paragraph 16, that it is difficult, in view of the Irish Republic's policy of neutrality, to refer to Europe speaking increasingly with one voice in world affairs.

In paragraph 17 the words "in steepening decline" should be deleted and the word "disloyalty" replaced by "problems".

In the first sentence of paragraph 21 the word "fairer" should be replaced by "greater".

Paragraph 23 should begin as follows: "Procedure and new organisations are no substitute for content and action to solve existing problems".

In paragraph 24(e) the Prime Minister would prefer to delete the words "where they judge it indispensable". In paragraph 24(f) she would like to delete the last two sentences. In paragraph 24(g) the word "other" in the last sentence should be replaced by "main".

I am copying this letter to David Peretz (HM Treasury), Callum McCarthy (Department of Trade and Industry), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone Esq
Foreign and Commonwealth Office

MFJAAL

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Foreign and Commonwealth Office

London SW1A 2AH

4 June 1984

A.S.C. 4/6

h.a.

Dear David,

Community Budget Negotiations

Sir Geoffrey Howe has asked me to write about the points made by the Chancellor of the Exchequer in his minute of 23 May and by Mr Jopling in his letter of 24 May.

Sir Geoffrey agrees that colleagues should take the line proposed by the Chancellor on budgetary discipline, 1983 refunds and the Commission's loan proposal, if these questions should arise.

On the point made by Mr Jopling, the statement that failure to agree will condemn the Community to run out of money in the autumn is one of fact. There is no question of making a concession in the absence of agreement on other matters, as the Prime Minister made clear in the House of Commons on 26 April.

I am copying this letter to John Coles (No 10), Private Secretaries of Cabinet Ministers and Richard Hatfield (Cabinet Office).

Yours ever,

(L V Appleyard)
Private Secretary

D Peretz Esq
Treasury

CCPC



Foreign and Commonwealth Office

London SW1A 2AH

1 June 1984

Dear John,

Paper on the Future of the European Community

P423

You wrote on 2 March about the paper which the Prime Minister has promised to give to Chancellor Kohl.

The enclosed paper has been drafted in the FCO, with contributions from Sir Michael Butler and David Williamson. It has been seen on a highly restricted basis by key officials in the Treasury, MAFF and DTI. As a paper which is intended to be a communication from the Prime Minister to Chancellor Kohl personally, it has not seemed appropriate to circulate it for clearance throughout Whitehall.

The paper has been approved by the Foreign Secretary. In Sir Geoffrey Howe's view it strikes the necessary positive note to appeal to Chancellor Kohl, while avoiding specific commitments to which we would not wish to tie ourselves. Kohl is at present campaigning in the European elections on the theme of the future of Europe. Mitterand made a speech on the same subject in Strasbourg recently. As you know, Sir Geoffrey Howe set out our own views on the relaunch of the Community in his speech to the Franco-British Chamber of Commerce in Paris last Friday. You will also have seen reports that Mitterand and Kohl have been consulting about the proposals they intend to make at or after the Fontainebleau European Council. I am sending a separate note on the kind of ideas they have been considering.

As the Prime Minister requested, the paper emphasises the scope for developing the Community's external activities. It also offers ideas on the internal side. Sir Geoffrey Howe considers the latter desirable, both to emphasise the importance we attach to completion of the internal market and creating the right conditions for economic growth; and to deal with German hints that we are only interested in political cooperation and external affairs.

/Sir Jock Taylor



Sir Jock Taylor has suggested that the paper would have most impact if it were passed to Chancellor Kohl under a short cover note from the Prime Minister on the lines of the attached draft.

Particularly in view of the Franco-German discussions, Sir Geoffrey Howe recommends that the paper should be given to Chancellor Kohl as soon as possible, ie during the Economic Summit. Thereafter copies might be passed on a personal basis to President Mitterrand and to other EC heads of government and the President of the Commission in time to influence the debate on these matters which is likely to take place at the European Council. If the Prime Minister is content with the paper, we shall arrange for French and German translations to be made at once.

I am sending copies of this letter, with the enclosures, to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Minister of Agriculture.

Yours ever
Peter Ricketts

RB (R B Bone)
Private Secretary

A J Coles Esq
No 10 Downing Street

Enso Pol

Budget Pt 24



DRAFT: ~~minute~~/letter/~~teletype~~/~~dispatch~~/~~note~~

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Chancellor Kohl

Copies to:

PRIVACY MARKING

SUBJECT: EUROPE - THE FUTURE

.....In Confidence

CAVEAT.....

1. I undertook to let you have a note setting out some thoughts on the future of the European Community and of European cooperation generally.
2. The post-war experience has demonstrated the interdependence of the nations of Western Europe. Through the creation and development of the European Community an enormous amount has been achieved, with great benefit for Europe and the wider world; but only a small part of Europe's potential has been harnessed and exploited.
3. As I see it, we must finally make a reality of the Treaty of Rome, breaking down the barriers - economic, cultural and political - which still block our path to the goal set out in its preamble - ~~an ever~~ ^{an} closer union among the peoples of Europe. At the same time, we must project our cooperation into new areas of activity of significance for Europe, the Alliance - and the world beyond.
4. We have been giving thought to ways in which we might pursue these objectives with the aim of building on what

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Enclosures—flag(s).....

has already been achieved and further advancing European cooperation in positive and practical ways. I enclose a paper setting out our views.

5. I would welcome the opportunity to examine with you and our partners ways in which these and other ideas could be carried forward.

EUROPE - THE FUTURE

INTRODUCTION

1. At the European Council in Stuttgart an ambitious programme was decided, involving a review of almost every aspect of the Community's activities. The negotiation has not been easy; and that is not surprising. There will continue to be arguments over priorities and the allocation of resources. That would be true even in a full-fledged federation. The Community progresses by the process of argument and discussion necessary to resolve its differences.

2. The Community is now close to agreement on the issues determining the course of its future development. ^{Some} Progress has been made towards financing Community activity in the longer term and establishing a fairer balance of contributions. ^{Some} ~~Important~~ steps have been taken towards limiting the future costs of the agricultural regime. The Ten have agreed to work on a series of new policies to promote the economic, social and political growth on which their future well being depends. The negotiations remain to be completed. Their completion will enable the Community to concentrate on longer term objectives, and on responding to the needs and aspirations of its 270 million inhabitants.

3. This means giving greater depth to the Community in both its internal and external activities. The European Community, which has the largest share of international trade in the world and the immense benefit of the ingenuity of its peoples, and of the diversity of its economies, has only just begun to take advantage of its great potential. The Common Market is a means to an end, described in the Treaty itself as, "a harmonious development of economic activities, a continued and balanced expansion, an increase in stability, an accelerated raising of the standard of living."

4. The Community's energies must also be turned outwards so that we can:

(i) defend our collective interests in an increasingly troubled world;

(ii) fulfill our international responsibility to the causes of freedom, democracy, prosperity and peace;

(iii) create the sense of common purpose and momentum needed to hold together a Community of 12;

(iv) show that Europe is in command of its own destiny.

*- an important word - N. & S. and
not need for
U.S.*

5. If the European Community is to ^{be effective} count as a force in the ^{not restricting} world, it must also be a ^{vital} vital force in the national life of each of its Member States.

/Strengthening

Strengthening the Community

6. If the problems of growth, outdated industrial structures and unemployment which affect us all are to be tackled effectively, we must create the genuine common market in goods and services which is envisaged in the Treaty of Rome and will be crucial to our ability to meet the US and Japanese technological challenge. Only by a sustained effort to remove remaining obstacles to intra-Community trade can we enable the citizens of Europe to benefit from the dynamic effects of a fully integrated common market with immense purchasing power. The success of the United States in job creation shows what can be achieved when internal barriers to business and trade come down. We must create the conditions in which European businessmen too can build on their strengths ~~to~~ to create prosperity and jobs. This means action to harmonise standards and prevent their deliberate use as barriers to intra-Community trade; more rapid and better coordinated customs procedures; a major effort to improve mutual recognition of professional qualifications; and liberalising trade in services, including banking, insurance and transportation of goods and people. If we do not give our service and manufacturing industries the full benefit of what is potentially the largest single market in the industrialised world, they will never be fully competitive at international level; and will be unable to create much needed jobs within the Community.

7. At the same time we must do more, and work harder, to make actions undertaken within the Community relevant to the lives of our people. A sustained effort will be required further to simplify and speed up customs and other formalities affecting the ease with which our citizens can travel across intra-Community borders. We should aim, for example, to allow European citizens to travel as freely and cheaply as the inhabitants of the United States. Important steps could be taken in that direction by increased competition and the de-regulation of air services.

8. The Common Agricultural Policy has succeeded in the objective of providing Europe with a strong agricultural base. Remarkable increases in productivity have been achieved. The preservation of the best elements of that policy requires a continuing effort to correct the distortions which manifest themselves in the form of massive and costly surpluses of certain products, imposing high storage costs and the need to dispose of them in ways which complicate trading relations with our OECD partners and are impossible to defend to our own citizens and tax payers. An important and courageous effort has been made to control surpluses in the dairy sector. A sustained, multi-year effort will be required to achieve a better balance between production and demand, thereby releasing resources for other purposes.

9. For in the next decade equal priority must be given to creating the right conditions for the development of a vigorous, efficient and cost effective industrial sector able to compete with the United States, Japan and the newly industrialised countries. To this end, we need to examine urgently whether more can be achieved, or can be achieved more economically, by action on a Community basis rather than nationally. Better cooperation on research and development will help avoid duplication and waste. In some cases Governments can cooperate directly to encourage industrial activity at European levels - as in the case of Airbus, ESPRIT and JET. The Commission has suggested that the Community now look at possible programmes in telecommunications and biotechnology. We should examine these and similar proposals carefully to see whether they will be more effective at the Community level. In doing so, we should give the highest priority to facilitating collaboration at the industrial level. Member Governments must ^{ad} join ^{to} (together) in limiting the administrative and legal impediments to risk-sharing and investment, in order to allow European firms to compete and cooperate in a way which will enhance their ability to match the performance of their competitors.

10. Creating the right conditions for economic growth without due regard for the wider interests of our environment and of our consumers is not acceptable. The peoples of Europe must feel

/that

① that the Community (is directly responsible for) improving^{es} the quality of their lives. Many environmental problems require action going beyond the capabilities of individual Member States. They have to be tackled on the basis of serious analysis of the scientific evidence and with due regard to industrial costs and efficiency. This is an area in which the Community has an important role to play. The United Kingdom has already suggested that decisions should be taken urgently to bring about the elimination of lead in petrol. It is also time for a programme of research aimed at finding solutions to the problems caused by acid rain, and for controls on trans-frontier shipments of hazardous waste to continue to be developed.

11. At the cultural level, we should examine whether Governments cannot do more to encourage the learning of other Community languages. The European Foundation could play a useful role in this and in developing professional exchanges. Full access to each others' satellite broadcasting systems would help the process of cultural interchange in an eminently practical way of direct concern to mass audiences.

12. This process will require political direction. We should agree in the European Council that each Member Government should examine its political priorities and its current national policies in all sectors covered by the Treaties in order to see

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in each case whether greater progress could be made by a cooperative approach at the Community level. The results of this examination should be studied by the General Affairs Council and reported back to the European Council.

A flexible Europe

13. The European Communities, with their corpus of institutional and legal structures, and their own resources, are and must remain the framework within which Community law applies. Action undertaken in the Community framework must continue to be on a basis of equal rights and equal obligations. But a certain flexibility of approach may be necessary in the coming decade, when the Community will have become larger, its membership more diverse, and in some areas of technological development, the industrial structures and interests of Member States more varied. For such practical reasons, it may sometimes make sense for participation in new ventures to be optional. This should not lead to rigid distinctions between different groups of participants. That would be particularly disillusioning for our new members who expect to be joining a democratic and homogeneous Community. Where ventures are launched with limited participation, it should be open to other Member States to join in as and when they are able to do so. The possibility for action financed by the Community or with Community law as its legal base should be examined before it is decided to proceed on

/a

a more limited basis. The progress of all work relevant to European integration should be monitored and open for discussion in a suitable high-level forum.

Europe in the World

14. It must be our objective to aim beyond the Common Commercial Policy through Political Cooperation towards ^{a common approach} ~~the achievement of a~~ ^{to} ~~common external~~ ^{of this} ~~policy.~~ Such a policy can only be achieved progressively: it must nevertheless be the aim before us.

15. The Community and its Member States already have at their disposal many of the elements for a common external policy. It is linked to other Western European countries through the EEC/EFTA agreements. The Lomé Convention binds the Community in a contractual relationship covering aid and trade with 64 developing countries. The Common Commercial Policy governs its trade relations with the rest of the world. The Community takes common action in international economic organisations. There is the network of Association and Cooperation agreements both with individual countries and with groups such as ASEAN and the Andean Pact. The growth of Political Cooperation enables the members of the Community increasingly to adopt common positions on world problems and to vote together in non-economic international bodies. Our aim for the future should be to bring about a greater coherence between these different elements. In that way

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a common external policy ^{could} ~~can~~ be progressively achieved.

16. The US will remain central to European security and the management of East-West relations, and no less so in the management of the problems of the world economy and trade. Our task must be to ensure that Europe plays no less central a role in all those respects. To that end it will be necessary for Europe to speak increasingly with one voice in world affairs. By common action of the Community and the Ten, Europe must impress on the US that unilateral American action, eg on technology transfers, extra-territoriality, unitary taxation and, above all, protection for US industries will put the success of Alliance consultation and coordination at risk. Equally we must be ready in Europe to make progress towards the liberalisation of our trading practices, and to play a full part in strengthening the GATT trading system. Mechanisms for consultation and coordination between the Allies are already in place. What we need is the will on both sides to use them to get results: bilaterally, within the Alliance, and on behalf of the Community and its Member States.

17. Europe is more than Western Europe alone. By the end of this century we could see the Soviet Union ~~(in steepening decline)~~ with increasingly serious economic difficulties and growing ^{problems} ~~disloyalty~~ in Eastern Europe. At that stage more than ever, a

/coherent

coherent and persuasive West European voice will need to be heard on the management of East-West relations. Europeans have their own interest in economic relations with the Soviet Union and East European countries, illustrated by the level and intensity of their political contacts with them. They should reflect on the special status this gives them, and on the scope it offers for a more coordinated approach on wider questions, eg the encouragement of a more differentiated economic and social development in Eastern Europe. Steps of this kind will strengthen the European political entity and enable it to act more effectively in relation to the major international issues which legitimately concern it.

18. The Community must also use its weight to influence the other major industrialised economies to shoulder their share of responsibility for the world economy: the United States by paying more attention to the international consequences of its domestic economic policies, and Japan by integrating its financial markets into the world economy and raising the level of its manufactured imports to one comparable with other industrial democracies. The Community must act jointly with these major trading partners to promote the further liberalization of international trade and to extend the open trading system, including a well-prepared new GATT trade round. This would bring the many varieties of developing countries more effectively into the world trading

/system

system, and persuade the more advanced among them to take more responsibility for its good management. Our performance so far in encouraging development in the Lomé countries, in South-East Asia, in Latin America, and in many other countries through our food aid and non-associates programmes is commendable. But there is room for better coordination between Member States, the Community and other donors to secure maximum political as well as developmental effectiveness from our aid.

19. In Political Cooperation, the Ten need to act with more vigour and greater purpose. Cooperation should not just be a matter of making declarations in the face of increasingly complex challenges. The Ten have the weight and must show more political will to act together: concentrate their efforts where their leverage is greatest and their interests most directly touched e.g. in the Middle East and Africa; and recognise that influence does not last if not backed by the necessary resources. Member States must take more seriously their solemn commitments to consult and take account of partners' views and work for common positions. The objective should be the progressive attainment of a common external policy.

Defence and Security

20. Our objective must be to strengthen the European pillar of the Alliance and improve European defence cooperation.

21. Europe already carries a heavy defence burden within the Alliance - although some of its members take a ^{greater} fairer share of that burden than others. It contributes to security both on this Continent and in the wider world by a variety of political and economic as well as military instruments. This contribution is far greater than is understood in the United States. If such views are not corrected, the temptation will grow for America, under pressure from the Congress, to look more toward interests outside Europe. Yet the US strategic commitment to Europe will remain an irreplaceable guarantee of Western security. If we wish to preserve it and ensure that our views continue to be given due weight by future US Administrations, the European Allies must find answers to some difficult questions: Are we able to take on a larger share of the responsibility for their defence? How should we respond to renewed public questioning of defence policy? Or the need to develop new technologies at a time of rising costs and resource constraints? The answers make it evident that such problems have to be tackled jointly.

22. Most work to coordinate European positions on this so far has been done in the NATO framework, particularly in the Eurogroup and the IEPG (which has the merit of including France), and there is still more that could be done to exploit the potential of these groupings. We must continue to work for the implementation of the Genscher/Colombo Solemn Declaration of

/19 June 1983

19 June 1983 which provides a helpful reaffirmation of the Community's political and economic objectives. But if we want early progress - and an early chance to demonstrate our seriousness - we must be willing to look at new openings including those offered by the WEU.

23. Procedure ^{and reorganisation} ~~will be~~ no substitute for content ^{and action do some} We have to be ^{crisis} ~~be~~ ^{problems} prepared to make efforts before we can pool them. Progress demands in particular that we focus on the resource allocation and defence industrial aspects of the problem. We should be able to achieve better value for money by common procurement and collaborative manufacturing projects, recognising (as past experience has always shown) that this process will give rise to very real political problems and difficulties for which there are no facile solutions. Individual projects are probably best organised on a case-by-case between those member countries with the capacity and wish to undertake them, making use of the framework of the IEPG. But the general prospects for them could be greatly improved by progress towards a more integrated European industrial and technological base, and by strengthening the Community's internal market. These are areas of proper Community concern which need our urgent attention.

Organisation and Institutions

24. There are several areas in which specific improvements can

/be

be made. With regard to the Community:

(a) The Commission's role is central to the functioning of the Community. It is crucial that it should attract, and that Member States should appoint, individuals of the highest calibre with a clear recognition of the tasks to be done. After enlargement the Commission still needs to be able to provide real jobs for people of the best quality. A Commission of 17 is liable to be too large for efficiency or to provide all members with serious portfolios.

(b) The Presidency also plays a key role in the management of the Community's business. Its effectiveness would be enhanced by greater cooperation between the Presidency in office and the preceding and succeeding Presidencies.

(c) An early European Council should consider adopting a new procedure under which each year the European Council would adopt a brief and succinct statement of priorities, with specific timings and targets, which would form the basis of the Community's activities for the following 12 months.

(d) When the Commission reviews its legislative proposals each year, there should be a thorough weeding out of hopelessly blocked items and unnecessary cases of

/obstruction

obstruction brought to the notice of the Council.

(e) The voting provisions of the Treaty must be fully honoured. Unanimity must be respected in all cases where the Treaty so provides. The same applies for majority voting. At the same time, Member States must be able to continue to insist, (where they judge it indispensable) because of a very important national interest, on discussion continuing until agreement is reached. But they should be required in each case to set out their reasons fully.

(f) The European Council should eschew the role of Court of Appeal from the Council. Its true and irreplaceable task is to provide strategic direction and political impetus for all areas of Community work and Member States' cooperation. For this, it might be enough for it to meet no more than twice a year, perhaps for two full days. Alternatively, one of the three annual meetings might be conducted on a more informal "Gymnich-type" framework without advisers. The responsibility for preparing European Councils should rest, as it does now, with Foreign Ministers. [Depending on the issues before the European Council, there might exceptionally be a case for some additional preparation by representatives from capitals, plus Permanent Representatives, to review matters likely to arise at the

/Summit

Summit, and to draw the attention of Foreign Ministers and Heads of State to any particular objectives and interconnections. Follow-up would be carried out in the appropriate place.)

(g) In a grouping of democratic European states the directly elected European Parliament must reflect with increasing responsibility the preoccupations and priorities of our peoples. Through the various procedures set out in the Solemn Declaration of June 1983, the Council and Member State need to work out ways of keeping the Parliament better informed, responding to its suggestions and bringing it to work in greater harmony with the ^{main} ~~other~~ decision making institutions of the Community.

(h) Once the post-Stuttgart negotiation has been completed it should be possible for Member Governments to take common action to present the Community to their peoples in a more favourable light. It is important that people should receive an objective picture of the present state of European integration. It would be desirable for Foreign Ministers, at an early informal meeting, to discuss this question and, if possible, to agree on some common themes for Governments to put forward in their presentation of the Community and of the issues under discussion in it.

/Conclusions

Conclusions

26. The European Community and the Alliance jointly have brought an unprecedented period of peace and prosperity to the peoples of Europe. We cannot rest on the achievements of the post-war generation. Over the next decade Europe will face new economic and social challenges, and a continuing threat to her security.

27. Periodic expressions of pessimism about the future of the Community have never turned out to be justified. Europe needs to advance its internal development. The progress that has been made towards "an ever-closer union of the peoples of Europe" of which the Treaty of Rome speaks in its first paragraph is unlikely to be reversed.

28. The objectives now must be to:

- strengthen democracy and reinforce political stability in Europe. This means bringing to a successful conclusion the accession negotiations with Portugal and Spain;
- develop a dynamic society in which industry thrives and activities which create wealth are encouraged. To do so, we must complete the internal market, particularly in the services sector;
- strengthen the European pillar of the Alliance and the contribution Europe makes to its own security;
- promote policies which will improve the quality as well

as the standard of life in the Community with due regard for the needs of economic and industrial efficiency; environmental considerations must count for more than they do today;

- agree urgently on certain organisational changes;
- adopt policies which will guarantee the relevance of the Community to the problems, particularly unemployment, which affect our societies;
- take the necessary steps to strengthen the voice of the Community and make its influence felt in the world;
- heighten the consciousness among our citizens of what unites us.

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There is a 411 - but have made a 415 amendment not

Qz.03738

MR COLES ✓

CONFIDENTIAL

Prime Minister

①

There are strong arguments to handing over the paper soon. But we need comments from the Chancellor, the Trade Secretary and the Agriculture Minister. The target of handing it over during the Summit (Economic) seems ambitious. But if you think the paper broadly all right we do it on the right lines? A.T.C. 1/6.

|| but if you think the paper broadly all right we could try.

PAPER FOR CHANCELLOR KOHL ("EUROPE - THE FUTURE") AND REACTIONS TO FRANCO GERMAN STATEMENTS ON THE FUTURE OF THE COMMUNITY

The Prime Minister has told Chancellor Kohl that she would let him have a paper on United Kingdom views about the future of the European Community. You will be receiving a draft paper from the Foreign and Commonwealth Office shortly.

2. There has been a good deal of rhetoric in the Community this week about moves to European Union and about more areas for co-operation in Europe and between France and Germany. President Mitterrand delivered a very successful speech to the European Parliament on 24 May, which did not, however, contain any significant new or specific commitments. The same theme was echoed in the statements following the bilateral meeting between Chancellor Kohl and President Mitterrand, with the implication that Britain might be left outside these new developments. In our view the United Kingdom's strategy ought to be:

- not to join in competitive rhetoric about European Union;
- to make clear that we are ready to examine any new or specific ideas for greater co-operation within the Community or between member states;
- to stress that in any such examination we shall be putting forward our own ideas for making the Community work better both externally as a greater force in the world and internally by making the common market more real and more effective (cheaper and less restrictive transport

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and travel; fair competition in financial services; removing bureaucratic obstructions and exploiting the scale of the whole market). There is no harm in implying that the original Six have spent too much time and energy defending their national interests in the status quo (in particular, in agriculture) and have been far too lethargic in really spreading the benefits of the common market.

3. The paper for Chancellor Kohl can help this objective. Although there is some Eurojargon (which goes better in Bonn or Paris than in London), the message is that we ought to strengthen the internal market, to make better use of the Community's weight in foreign policy and trade, strengthen the European pillar of the Alliance, improve European defence co-operation and make some improvements in the organisation of the Community's business. Paragraphs 6-12 refer specifically to creating the genuine common market in goods and services; to doing more to make actions undertaken within the Community relevant to people's daily lives, eg through cheap and unrestricted travel; to a sustained effort on the agricultural policy which would release resources for other purposes; and to limiting the administrative and legal impediments to risk-sharing and investment. We want more momentum towards these practical improvements which are in our own interest. They are also a necessary counter-balance to the tendency of some other member states to see the development of the Community in terms of more public expenditure on new centrally conceived initiatives. If and when the reform of the financing system and the correction of the budget inequity is achieved in the Community, we can begin to win quite wide support in all member states for the message that we want to make the Community a better place for individual enterprise and not just the sort of place in which member states dispute about amending the common market organisation for linseed oil. Paragraphs 24-25 of the paper set out some suggested

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improvements in the operation of Community business, in particular the idea that each year the European Council should set strategic priorities as the basis for the Community's work; that as far as possible the European Council should not act as a court of appeal in relation to business being handled in other Councils; and that Community legislative proposals should be subject to regular scrutiny and weeding out if hopelessly blocked. Some of the suggestions in these paragraphs have already been discussed or advocated but they have now been brought together in a more determined effort to present improvements in the Community's working methods.

I am sending a copy to Sir Robert Armstrong.

Df Williamson

D F WILLIAMSON

1 June 1984



Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's
Private Office

Roger Bone Esq
Private Secretary to the Foreign Secretary
Foreign and Commonwealth Office
Whitehall
London SW1

1 June 1984

Dear Roger

*A.F.C. 1/6
h.a.*

You may like to see Sir Michael Franklin's record of the discussion on the wine regime at the informal meeting of Agriculture Ministers held earlier this week.

I am copying this letter and enclosures to David Peretz (H M Treasury) and John Coles (No.10).

Yours etc

CI

C I LLEWELYN
Private Secretary

EC WINE REGULATIONS

The scheduled discussion at the informal Council of Agriculture Ministers in Angers on the 29th May was inevitably overshadowed by the demonstration by French farmers and concern over the milk quotas (about which the Minister of State (Commons) is minuting). Nevertheless there was a one and a half hour discussion on wine introduced by M Rocard, who recalled an earlier ill-tempered exchange between himself and the Minister about the cost of the wine regime. He characterised the situation as potentially explosive which meant that measures to limit expenditure could not be taken without regard to the economic and social consequences. Nevertheless, it was clear that something had to be done given the fact that the proportion of FEOGA expenditure devoted to wine had risen dramatically and market prices were significantly lower than last year. Distillation had become a structural rather than an exceptional device. The management of the wine market was not effective, and the rising costs threatened to undermine the Council's successes in March. Spanish accession added a new threat. He advocated :-

- better use of the existing instruments
- some adaptation to them
- quantitative controls over both area and yield

There was a threat that, if the right solutions were not found, there would be a reversion to "frontier controls". He proposed a meeting of the High Level Group or Director Generals under Commission chairmanship to look for a way forward.

Commissioner Dalsager spoke along the lines of the attached press release proposing the six point plan of action which appears in it. He said the current statistics were grotesque, suggesting that Italy and Greece will be short of wine!

In the subsequent interventions:-

- (a) the Greeks did not think production could be frozen. They at least wish to be allowed to expand their quality wine and see exports developed.
- (b) Luxemburg was cautious about reform, but supported the need for better statistical information.
- (c) Mr Jopling spoke on the lines of the speaking note as slightly amended (copy attached). He put forward as his personal idea that countries which reported inaccurately or misleadingly should be penalised.
- (d) the Netherlands broadly supported the UK position and feared that the French idea of a progressive quota system would not be effective.
- (e) the Danes agreed that action should be based on the existing regulations and, as to procedure, wanted the discussion left to the Special Committee.
- (f) the Belgians stressed the need for an effective guarantee threshold.

- (g) Pandolfi (Italy) shared the general analysis but stressed the need for finding better outlets which he thought would be one of the key issues for the CAP over the next decade. The question of market imbalances could not simply be linked to the financial problem. He referred to the fact that Italy was about to introduce reconversion measures but this seemed to refer to milk rather than wine. With 1.6 million wine producers it was "very difficult" to organise the market and information was "patchy"! Italy was anxious to have a wine register. He supported the Greeks on export promotion and the UK on looking for alternative outlets (but I doubt whether he understood what we had been saying). The Community had enough problems with quotas without introducing them in the wine sector. He favoured spending money on grubbing up vines.

After brief interventions from Kiechle, Deasey and Souchon, Rocard wound up the meeting in order to receive the French farming leaders. It was decided that the Commission would call together a High Level Working Party and subsequently the date of 14th June was suggested.

J. Dmond

PP M D M FRANKLIN
31 May 1984

MR MYERS + 1

cc Private Offices
Mr Mason
Mr Andrews
Mrs Attridge
Mr Hollis

27-30 MAY 1984

SPEAKING NOTE

FRENCH PROPOSALS FOR REFORM OF THE REGIME

cf milk

1. Agree with the French analysis of the problem - increasing production and falling consumption are producing a ^{alarmingly} growing structural surplus of table wine, which at present is of the order of 15-20%. The entry of Spain can only make this worse. The Community must face up to the fact that the wine surplus, like milk, can no longer be financed at its current level. *Something has got to be done*

2. Of course it would be wonderful if consumption could be increased in some miraculous way to remove the surplus, but this is not possible since consumption in France and Italy is falling fast - much faster than it is rising in the non-producer countries, despite the United Kingdom's recent move to cut sharply excise duties on wine and increase those on beer. The only lasting solution is to bring down production of table wine.

~~Can be~~
3. How can this be achieved? We believe, like France, that a sustained programme is required over a period of years. However our object would be to encourage producers to reduce their yields, or to give up altogether, or to divert their production into other outlets, so that better returns can be found in the market place. We believe that this can be done within the existing framework by a relatively few simple changes. *Series of complementary measures*

4. An essential element is a long term policy of restrictive prices. *Never shrink from discipline of price* Over recent years the increases granted to wine have been too generous, and well above the average. This must be reversed and announced as such so that growers come to understand that they will not gain by expansion of their output.

5. Next the structural aids such as abandonment premia must be reviewed. The Commission has said that their uptake is disappointing

.../and it may

and it may be that they should be made more attractive. Funds for this can easily be found from within the regime. For example it makes little sense to aid the longterm storage of wine during a structural surplus. At present over half the wine leaving long term storage is distilled anyway, so that its storage has been unnecessary. Cutting out this aid would release at least 100 MECU which surely could be better spent.

6. A very promising area for savings, which would not hit the producer, is an alternative outlet for grapes. The Community is funding a number of research projects, including one at Newcastle University where concentrated grape juice is being fed to animals as a replacement for molasses. Initial results are promising and I would urge the Commission to pursue this alternative vigorously.

7. The crux of the problem however is how to find effective market supports which do not however encourage production. The Council will remember that in 1982 it decided to introduce an obligatory early season distillation aimed at removing any surplus at low prices. This has not yet been triggered, although this year it quite obviously should have been. We still feel that this distillation could be made to work and could go a long way to meeting the real concerns of producers and tax payers.

Perhaps there should be some penalty for misreporting

8. For example, the Commission could be given more discretion to introduce this distillation - at present they can only trigger it if the preliminary estimates show conclusively that a surplus is likely. *A more fundamental change, but still a simple one, would be to modulate the buying-in price so that ^{the lower the} ~~when there was a~~ large volume to be distilled ^{lower the} ~~then the~~ price would be very low. This change would achieve the same result as the French quota system, but much more simply.*

9. It is not possible to lay out all our ideas at this Council but the United Kingdom is preparing a paper setting them out in detail, which I hope will be tabled shortly.

10. In summary, the present crisis in the wine market, despite record levels of expenditure, demonstrates clearly the need for a

.../more cost

more cost effective regime. It is now essential for the Council to tackle the structural surplus so as to improve producers' incomes, but we believe this can be done by building on the present mechanisms, rather than by a fundamental reform.

Alcoholic Drinks Divison
May 1984

The Commission calls for a plan of action on wine.

Mr Poul DALSAGER, member of the Commission responsible for agriculture, has urged Ministers to set up a special task force composed of market directors to study the situation on the wine market and make urgent recommendations for action.

He was speaking at an informal meeting of Ministers of Agriculture on Tuesday at Angers at the invitation of Mr Michel Rocard, Minister of Agriculture of France and current President of the Agricultural Council.

Mr Dalsager indicated a certain number of tasks which the Community must accomplish as a matter of urgency, taking into account the experience of the last year.

1. First and foremost, find the means to collect rapid and reliable data on supply and demand, which is necessary for effective market management.
2. Examine the border-line between quality and table wines, so as to prevent large quantities of production slipping from one category into another.
3. Analyse the link between the different distillations, particularly between the preventive and obligatory distillation, and draw the necessary conclusions, both as regards the management of the wine market and possible changes in the regulation.
4. Look at the rules on access to distillation of wine from table grapes, Charentes wine and other special cases.
5. Take another look at the problem of sugaring, particularly how to intensify controls on illicit sugaring and other fraudulent wine making practices.
6. Ensure strict adherence to the prohibition on new plantings, and reinforce the measures to encourage the grubbing up of vines.

Referring to the current unsatisfactory situation, Mr Dalsager emphasized that the Commission could not be expected to manage the wine market if Member states did not provide reliable facts and figures. Unfortunately, the Wine Management Committee had not been able to provide more realistic data to replace the official statistics supplied by Member states, which are obviously wrong.

If the quantities under distillation or storage contracts are deducted from the quantities supposed to be available, then stocks in two Member states are apparently so low that they will be unable to supply the national markets until the 1984 wine becomes available. This is not consistent with the state of the market, which is evidently oversupplied. As regards the request to distill a further 5 million hectolitres at 82 % of the guide price under article 15, given the failure of the Management Committee to provide more credible figures, the Commission has no reliable means of judging what the effect on the market would be.

Mr Dalsager said he was still convinced that the existing market regime negotiated in 1982 is fundamentally sound, though its faults must be corrected in the light of recent experience. He was sceptical about the practical possibility of negotiating a radically new market organisation, given the time this would take and the limits within which change is politically acceptable.

On the other hand, the Community cannot afford to do nothing and treat 1984/85 as an exceptional year, if it wants to avoid future disasters. He concluded : "We must have a plan of action which is realistic, coherent and carries conviction as a set of measures which can have an early impact."

PART 24 . ends:-

Paris tel 676 30.5.84 .

PART 25 begins:-

MAFF to FCO 1.6.84 .

