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European Council Meeting

Paris 25/26 June 1984

EUROPÉAN

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29.6.84							
4.7.84							
5.7.84							
13/7/84							

PREM 19/1222

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons – Third Report from the Foreign Affairs Committee - The Forthcoming Fontainebleau Summit, published by HMSO 13 June 1984.

House of Commons HANSARD, 27 June 1984, columns 993 to 1009: European Council (Fontainebleau)

Signed

J. Gray

Date

17/9/2013

PREM Records Team

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22 JUNE 1984

EUROPEAN COUNCIL, FONTAINEBLEAU

Institution

25/26 JUNE

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Werner = no question

of amending the Treaty.

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Note

Full set preserved in FCO series
This set is destroyed

Roman 26 Feb 83

CCNO

NBPM
CDP
13/7

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

13 July 1984

R B Bone Esq
Private Secretary to the
Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
Downing Street
LONDON SW1

Dear Roger

**OUTCOME OF FONTAINEBLEAU:
PUBLIC EXPENDITURE IMPLICATIONS**

Thank you for your letter of 9 July. As I explained to you on the telephone on Tuesday, we should strongly prefer to keep to the presentation in my letter of 2 July, which the Prime Minister approved. We are therefore glad that neither the Foreign and Commonwealth Secretary nor Mr Rifkind found it necessary to use your suggested alternative presentation in Tuesday's debate.

Perhaps I might restate our misgivings about the line suggested in your letter:-

(i) you say that our contribution to the allocated budget after refunds is expected to average in cash terms around £650 million a year over financial years 1984-85 to 1986-87. The use of financial years implies this is a public expenditure figure. But it is not. This could be very misleading to the House. Moreover, our "net contribution to the allocated budget" is not a concept with which the House is familiar. Most interest lies in the concepts used for public expenditure planning purposes, eg. our "net payments to the Community Budget" or our control total "net payments to Community institutions". The Treasury Committee focused on these; they are the figures that have been published in the past, and with which comparison will now be made. It will also be these figures that the Government will have to defend at the time of the Autumn Statement and the next Public Expenditure White Paper;

(ii) you also say that, in real terms, at constant 1983 prices, we expect our adjusted net contribution to decline even with the increase in the 1 per cent ceiling. As you know, we are reluctant to make use of "real terms" arguments for public expenditure purposes, since it is the cash figures that are important. In any case, our projections are not robust enough for a public prediction of this nature. It could well turn out to be a hostage to fortune. (Incidentally, we notice that this "real terms" argument was used in a draft reply which the Foreign Office submitted for the Prime Minister to send to Mr Austin Mitchell. The draft was not cleared with us, and we have now asked No 10 to amend the letter accordingly);

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(iii) finally, you say that, under the new arrangements, our net contribution to new expenditure will be no more than 7 per cent "compared with our normal financing share of 21 per cent". For accuracy, it would be better to say "... compared with our maximum financing share, at present, of around 21 per cent".

I am copying this letter to Charles Powell (No 10) and to David Williamson (Cabinet Office).

Yours ever
David

D L C PERETZ
Principal Private Secretary

EURO POL: European Council Meeting: P. 8



CCPC



Foreign and Commonwealth Office

London SW1A 2AH

NBR7

CDD
10/7.

9 July 1984

John Jarvis

Outcome of Fontainebleau: Public Expenditure Implications

Thank you for your letter. ^{-5 July} There are obvious difficulties about giving precise estimates for our adjusted net contribution under the system agreed at Fontainebleau. Mr Stewart did not find it necessary to give figures during his testimony to the Treasury Select Committee and the Foreign Secretary and Mr Rifkind will similarly aim to avoid giving figures during tomorrow's debate.

Nonetheless, we may come under pressure to give figures and we think it important, if we do so, to present those figures in a way which does not allow them to be misinterpreted. We have never questioned the fact that the Public Expenditure White Paper must give figures in cash terms and that these will be on the basis of net payments to all EC institutions rather than the net contribution to the allocated budget. The question is what figures we use in the meantime.

The Prime Minister said in the House on 27 June that if we had not secured an agreement and if the 1% ceiling had been maintained, "we should be paying to the Community between £1200 million and £1500 million". That represented an estimate of our net contribution to the allocated budget. Any figure we now give for our adjusted net contribution under the system should be on a comparable basis. I fully understand that the cash figure of £800 million is not on a comparable basis. That was why we were reluctant to see it used, because it was liable to misinterpretation by MPs, who would compare it with the figure given by the Prime Minister and draw a wrong conclusion - namely that we were getting a lower percentage relief on our unadjusted net contribution than is in fact the case.

Against this background, if pressed in the House next week, the Foreign Secretary and Mr Rifkind propose to draw on the following paragraphs, using the final paragraph only if they judge it essential to do so. The figure given is a cash figure, but is a figure for our adjusted net contribution

/to the



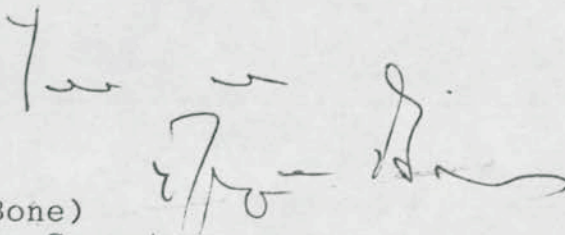
to the allocated budget and is thus directly comparable to that given by the Prime Minister.

"Hon Members will understand that it is not possible to give precise estimates of our adjusted net contribution under the system. This will depend on the size of the budget, the extent of the VAT call up and the size of our expenditure share. The size of the VAT share/expenditure share gap on which we shall receive reliefs will also depend upon the future trend of that portion of our levies and duties payments (about 12.5% at present) which will not form part of the calculations. Since this portion of "excess" levies and duties has been declining in real terms, the element of our unadjusted net contribution not covered under the system may well also diminish to our advantage.

What is clear is that we shall continue to contribute at less than 1% of the VAT ceiling even with increased own resources in place and that our refunds will now be on a firmly rising trend compared with the recent declining trend of ad hoc refunds. Moreover, our net contribution to new expenditure will be no more than 7%, compared with our normal financing share of 21%. By comparison, France will contribute at up to 27% and Germany at 32%.

In broad terms, our contribution to the allocated budget after reliefs is expected to represent an average in cash terms of around £650 million a year over financial years 1984-85 to 1986-87. If we had not reached agreement at Fontainebleau, and had relied on maintaining the 1% ceiling to safeguard our position, we should have found ourselves contributing, as the Prime Minister told the House on 27 July, at £1.2-£1.5 billion. In real terms, at constant 1983 prices, we expect our adjusted net contribution to decline even with the increase in the 1% ceiling. The remaining level of our adjusted net contribution is an inescapable part of Community membership resulting from the contribution we have to make to running costs and to transfers to the less prosperous Member States of the Community".

I am copying this letter to Charles Powell (No 10) and to David Williamson (Cabinet Office).


(R B Bone)
Private Secretary

D L C Peretz Esq
HM Treasury

Euro PA PT12

Euro Council Mtgs

Paris 25/26 June

CONFIDENTIAL



AT cell
to me
EDP
- 5/7.

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

R B Bone Esq
Foreign & Commonwealth Office

5 July 1984

Dear Roger

OUTCOME OF FONTAINEBLEAU: PUBLIC EXPENDITURE IMPLICATIONS

Thank you for sending me a copy of your letter of 3 July to Charles Powell. As recorded in Charles' subsequent letter, the Prime Minister decided that the Economic Secretary could, if pressed, use our suggested formulation that average net payments to Community Institutions, as defined in the Public Expenditure White Paper, could be of the order of £800 million in the financial years 1984/85-1986/87. In the event, the Economic Secretary was able to avoid giving any figures at yesterday's hearing. He said that we expected our net payments to Community institutions in 1983-84 and 1984-85 to be higher than in the last PEWP; and that the figures over the next three years would be of roughly the same order of magnitude.

Because this issue is bound to arise again soon (and certainly in next week's debate), the Chancellor thinks it very important that there should be no misunderstanding about the figures. He has asked me accordingly to set out the following comments on your letter:

- (i) your assertion (paragraph 2) that our suggested presentation is liable to be taken to mean that the system agreed at Fontainebleau will yield returns of only half our unadjusted net contribution whereas the actual returns will be much higher misunderstands the point I was trying to make. Our figures were not designed to show what proportion of our net contribution will be refunded. They were comparing what we could have paid in the event of no settlement at Fontainebleau (and no increase in the 1 per cent VAT ceiling) with what we can expect to pay following the settlement, including the increase in the ceiling

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to 1.4 per cent. On this basis, our post-settlement figure will be about £800 million a year for net payments to Community institutions (as defined in the PEWP). As table 1 attached to my letter of 2 July showed, our net payments could have been £1½ to £1¾ billion a year without a settlement but with no increase in the ceiling.

- (ii) you imply in your paragraph 2 that we should not be looking at our usual White Paper projections, but that we should instead make projections for calendar years with refunds allocated to the year in which they arise and taking account only of the allocated Community budget. It is true that the negotiations have been conducted on Commission figures calculated in this way. But to suggest that we should adopt this approach for our public expenditure projections misunderstands the purpose of public expenditure estimates. They are intended to record the actual public expenditure costs associated with the operation of the Community budget. It would be wrong for us to switch to calendar years when the rest of the public expenditure projections are for financial years; it would be wrong to deal in anything other than cash terms since the rest of the White Paper is in cash terms; and it would be wrong to disregard some elements of our net payments to Community institutions since these are public expenditure whether or not they are included in the allocated budget. The White Paper, incidentally, makes it quite clear what is and is not included and how it differs from the allocated budget concept. Generally, our figures quoted in Parliamentary Questions and elsewhere are on the White Paper basis rather than on the Commission basis.
- (iii) in your fourth paragraph you suggest that we should take the line that we shall be contributing "several hundred million ecus" a year and that this is the "most realistic way" in which to look at the path of our net contribution. In fact, as our projections make clear, our net payments to Community institutions will be considerably in excess of several hundred million ecus per annum - they are likely to be of the order of £800 million, which is over 1300 million ecu. To use your formulation could be misleading and would not be consistent with the figures which

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we will be publishing in the Autumn Statement and next year's White Paper.

- (iv) in your fifth paragraph you suggest that we should quote projections expressed in real terms at constant 1983 prices to show the prospective reduction in our adjusted net contribution in real terms. Table II attached to my letter of 2 July gave a run of past figures in constant price terms that has recently been made available in reply to a written PQ. But the idea of separating out a part of our public expenditure projections and showing it in real terms does not commend itself. The Government decided some time ago against projecting public expenditure estimates in real terms since this was tending to reduce the effectiveness of our public expenditure control. All projections in the White Paper are in cash terms, and it would be curious to project this part only in constant 1983 prices. Volume I of the White Paper will of course continue to show past figures in cost terms (see table 1.14 of Cmnd 9143); and the cash figures which we will be projecting for the future will imply some slight fall in real terms, although given our low inflation assumption the size of this fall should not be exaggerated and can certainly not be described as "sharp".

I am copying this letter to Charles Powell (No 10).

*Yours ever,
David*

D L C PERETZ

Council : EURO POL. Pt. 18.
Meeting

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- 4 JUL 1984

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Key

10 DOWNING STREET

From the Private Secretary

4 July, 1984

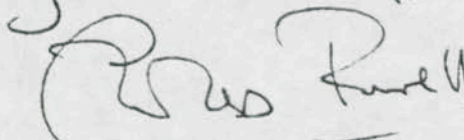
Dear David,

OUTCOME OF FONTAINEBLEAU: PUBLIC EXPENDITURE IMPLICATIONS

The Prime Minister has considered carefully the Chancellor's proposals, set out in your letter to me of 2 July, on the line which the Economic Secretary should take before the TCSC if pressed on the public expenditure implications of the Fontainebleau Agreement. She has also taken into account FCO views contained in Roger Bone's letter of 3 July.

The Prime Minister agrees that, if pressed, the Economic Secretary could mention that our provisional public expenditure estimate for our contribution in the financial years 1984/85 to 1986/87 is of the order of £800 million a year. But these figures should be used only if the Economic Secretary comes under strong pressure to reveal our estimate, and should be presented very firmly in the context of the much higher figures which the UK would have been liable to pay had there been no agreement at Fontainebleau. Caveats should be entered about the uncertainty over the Community's budget over the next few years and the provisional nature of the estimates.

I am sending copies of this letter to Roger Bone (Foreign and Commonwealth Office) and to David Williamson (Cabinet Office).

Yours sincerely,

(C.D. Powell)

D. Peretz, Esq.,
HM Treasury

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MR POWELL

BUDGET SETTLEMENT IN THE EUROPEAN COUNCIL: PUBLIC EXPENDITURE

Mr Peretz wrote to you on 2 July about the line which the Economic Secretary to the Treasury might take in evidence to the Treasury Select Committee tomorrow and I understand that the Foreign and Commonwealth Office are also commenting on this.

2. If the Prime Minister were to decide to maintain the line which she laid down in the discussion before her press conference in Fontainebleau and her parliamentary statement, that we should not volunteer at this stage estimates of the United Kingdom's adjusted net contribution and refund for the period 1985-88, I would draw attention to the following argument which is not included in the Treasury or FCO letters. Although we are demanding savings on the Commission's proposals for the Community's 1985 budget and are opposing the Commission's proposal for the 1984 supplementary budget, it is still unclear where these savings will be made and whether any expenditure will be deferred into 1986 or later years. **There is, therefore, at the present time a genuine uncertainty about the Community budgets for the next 2 or 3 years.** This uncertainty should be less later this year when we shall need to revise the figures for net payments to the Community which will be included in the Autumn Statement and in a revised Public Expenditure White Paper.

3. It seems to me, therefore, that it should be possible for the Economic Secretary to explain to the Select Committee that, leaving aside the element of excess levies and duties (which was about £172 million in 1983 or about £167 million on average over the period 1981-83) the remainder of the United Kingdom's

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net contribution to the Community's allocated budget in respect of 1985 and subsequent years will be abated by two-thirds (66 per cent). The composition of the Community's budget, however, for 1985 and the consequences for later years are the subject of discussion in the Community's Budget Council at the present time. The situation will be much clearer later this year. In short, there are more uncertainties about the Community budget itself than about the new system of budget refunds which the United Kingdom has negotiated.

4. I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

3 July 1984

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Foreign and Commonwealth Office

London SW1A 2AH

3 July, 1984

John Chester,

Outcome of Fontainebleau: Public Expenditure Implications

In his letter of 2 July, David Peretz recorded the Chancellor of the Exchequer's view that, in his testimony to the Treasury Select Committee tomorrow, the Economic Secretary should say that our average net payments to Community institutions in the financial years 1984/85 - 1986/1987 could be of the order of £800 million.

We recognise that the Select Committee will be seeking to compare what was achieved at Fontainebleau with the figures published in the last Public Expenditure White Paper, even though it was made clear that they were artificial and stylised figures and did not represent a negotiating objective; and that it may be necessary, in the next PESC White Paper, to give a forecast. The manner in which the argument is presented in paragraph 6 (second sentence) of David Peretz's letter, however, is liable to be taken to mean that the system agreed at Fontainebleau will yield returns of only half our unadjusted net contribution, whereas the actual returns will be much higher than that. The projections in Table I are in cash terms and on a financial rather than calendar year basis, and therefore do not bring out the sharp decrease in our real net contribution which will be brought about from 1986 as the system comes into operation. Furthermore they relate to payments to Community institutions as a whole (ie including EIB, ECSC and a number of other items not in the allocated budget) rather than the allocated budget, which is the basis on which the Prime Minister said in the House last Wednesday that, without the settlement, we would probably have paid £1.2 billion to the Community in 1984. It is liable to cause confusion now if we start talking of future and highly uncertain estimates on a different basis.

We therefore think that the Economic Secretary should stick to the line so far taken by the Prime Minister, namely:

- (a) we shall be substantially better off under this arrangement than with no agreement and no increase in own resources;
- (b) we expect our adjusted net contribution to be lower in real terms over the next four years than in 1983;
- (c) whereas under the system of ad hoc refunds, our reliefs were on a declining trend, they will now be on an increasing trend;



- (d) whereas we shall be making a net contribution at the margin of only 7% to new Community expenditure, Germany will be contributing at a rate of 32%, and France at 27%. This will further reinforce the case for greater control over Community expenditure.

When asked about our anticipated net contribution after corrections in 1986 to 1988, we have taken the line that precise estimates are not possible, but we shall still be contributing several hundred million ecus per annum. That is an inevitable part of our membership of the Community and our contribution to its costs, including enlargement. It seems quite widely understood that this is the most realistic way in which to look at likely future pattern of our net contribution.

If the Select Committee pushes so hard on this issue that the Economic Secretary judges that the Government would appear damagingly defensive and obfuscatory by continuing to withhold even rough estimates; or if in due course more specific estimates need to be given (and we do not believe that projections based on so many variables are likely to be any more accurate in the future than they have been in the past), we consider that they should take the form of figures for our adjusted net contribution expressed in real terms at constant 1983 prices ie showing clearly the reduction in our adjusted net contribution which will take place in 1986 as the system comes into operation. We also think it would be preferable to allocate the refunds to the year in which they are generated rather than - as in David Peretz's table - to the year in which they are paid. On that basis, subject to the Treasury's comments, the run of figures would appear as in the Annex to this letter.

I am copying this letter to David Peretz.

(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

ADJUSTED NET CONTRIBUTION TO THE EC ALLOCATED BUDGET
ON A CALENDAR BASIS IN REAL TERMS AT CONSTANT 1983
PRICES

	Adjusted net contribution in real terms £ million at 1983 prices
1983	681
1984	600
1985	534
1986	614
1987	604
1988	623

PRIME MINISTER

Outcome of Fontainebleau: Public Expenditure
Implications

May be water over the dam, as the Chancellor has already spoken to you.

Economic Secretary is before the Treasury Select Committee tomorrow (Flag A). Likely to be pressed on public expenditure implications of Fontainebleau. First line of defence will be: without a settlement we should have had to pay very much more, probably twice as much: our reliefs will be on a rising rather than a declining trend: our adjusted net contribution will be lower in real terms over the next four years than in 1983: but precise figures cannot be given until we know the size of the Community budget, changes in our share of Community expenditure and impact of budgetary discipline.

All agree on that. But David Williamson and the FCO both strongly recommend that we go no further (Flags B and C).

The Chancellor however thinks it necessary to add, if pressed, that our provisional public expenditure estimate is for an average corrected net payment to the Community of the order of £800m. a year up to 1988.

In favour of the Chancellor: a forecast is only that, it is not the last word: the committee won't believe that we haven't got an estimate of the public expenditure implications.

In favour of David Williamson and the FCO: why give figures which are uncertain, probably under-state the value

of the Fontainebleau deal for the UK and may get some headlines: the uncertainties will be less in the autumn.

So it really boils down to two questions:-

- 1) Should the Economic Secretary mention any figures?
- 2) If yes, should they be the £800m. a year figure or those attached to the FCO letter?

C.D.P.

Mr. White
Could mention £800m

(always in conjunction with
the £800m + 1500m) if

pressed
no

3 July 1984



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

2 July 1984

Charles Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles

OUTCOME OF FONTAINEBLEAU: PUBLIC EXPENDITURE IMPLICATIONS

We exchanged ^{see staff} letters last week about figures for public use on the financial implications of the Fontainebleau agreement.

As you may know the Treasury Select Committee have now decided to hear evidence about the settlement and the Economic Secretary and senior Treasury officials will appear before them on Wednesday morning (4 July). The evidence will then be published so as to be available to the House as soon as possible.

The Economic Secretary will almost certainly be asked to comment on how the figures resulting from the Fontainebleau settlement are likely to compare with the figures for net payments to Community institutions up to 1986-87 published in the last public expenditure White Paper (Cmnd 9143). This question was raised by Robin Cook immediately after the settlement and will be of particular concern to the Treasury Committee which is accustomed to scrutinise closely the public expenditure figures.

Table I attached (a fuller version of that enclosed with my letter to you of 27 June) shows the comparison. Our best current estimate of the likely public expenditure figures for the financial years 1984-5 to 1986-7 shows increases of some £425 million, £300 million, and £125 million respectively over the Cmnd 9143 figures. These increases are, of course, as the Prime Minister implied in the House last week, substantially less than if there had been no settlement.

If the Economic Secretary is asked about the public expenditure figures, he would propose in the first instance to indicate, as did the Prime Minister in the House last Wednesday, that without the new settlement we should probably have paid around £1.2 billion to the Community in 1984, and that this could have risen to £1.5 billion or more in later years. Thus the Fontainebleau settlement will substantially reduce our liability, although it is not possible to give any precise figures at this stage. This will depend on a number of complex factors, including the size and composition of the Community budget, changes in our share of Community expenditure, the impact of budgetary discipline etc. The Economic Secretary would, however, add that for the purposes of the autumn statement, and the next public expenditure White Paper, we shall be undertaking a full scale forecast; and he will point out that Cmnd 9143 (copy of relevant section attached) clearly stated that the basis of the figures included there was a "stylised assumption, not a forecast nor a negotiating objective."



If, however, as seems likely, the Economic Secretary is pressed further, the Chancellor thinks that it could be damaging if he were not able to give some further indication of the likely public expenditure figures for the later years. The figures will have to be published in due course (the first formal occasion will be the Autumn Statement) and the Government would be open to criticism either that it was deliberately concealing the effects of the settlement or that it had accepted the settlement without having calculated, even in broad terms, its likely effects. The briefing for backbenchers, journalists and others which was attached to the Foreign Secretary's minute of 28 June to the Prime Minister, has of course already stated that "even with an increased VAT ceiling, we shall be paying around half what we would have had to pay with no increase in the VAT ceiling and no agreement on refunds".

The Chancellor fully agrees that it would be dangerous and misleading to try to give any precise figures at this stage. He thinks, however, that there would be advantage if the Economic Secretary, if questioned, could say that our provisional public expenditure estimate, subject to a number of unavoidable uncertainties, is that our average corrected net payments to Community institutions in the financial years 1984-85 to 1986-87 could be of the order of £800 million a year; and that without the Fontainebleau settlement, including no increase in the 1 per cent VAT ceiling, the amounts could have been roughly double that. The Economic Secretary would as necessary explain that the increase in the current year would be a claim on the Contingency Reserve, thus not involving any net addition to public expenditure; and that the figures for the future years will be taken into account as part of the detailed assessment and projections of expenditure in the preparation of the next public expenditure White Paper. The Chancellor also thinks there would be advantage in the Economic Secretary assuring the Committee that the House would not be asked to ratify the Fontainebleau decisions until up to date projections have been made available to them.

The Economic Secretary will also take the opportunity to point out that, at today's prices, the net payments to the total Community budget paid in 1978 and 1979 - the inheritance from the previous Labour administration - were somewhat over £1400 million in each year. This is illustrated in Table II attached, the information in which has been made available recently in two written PQ's.

The Chancellor would be grateful to have the Prime Minister's agreement that the Economic Secretary should proceed on the above lines.

I am copying this letter to Len Appleyard at the Foreign and Commonwealth Office.

*Yours ever
David*

DAVID PERETZ
Principal Private Secretary

FONTAINEBLEAU AGREEMENT: FINANCIAL YEAR COMPARISONS

	Cmnd 9143	Net payments to Community institutions taking account of Fontainebleau agreement	£m cash (rounded to nearest £25 m) Net payments to Community institutions if there had been <u>no</u> agreement
	(1)	(2)	(3)
1984-85	375	800	1325
1985-86	550	850	1725
1986-87	600	725	1550
1987-88	-	800	1625
Annual average	-	800	1550

Note: Column 2 assumes that the own resources VAT ceiling is raised to 1.4 per cent on 1.1.86 and that the UK receives budget refunds as agreed at Fontainebleau.

Column 3 assumes that the 1 per cent VAT ceiling continues, but that the UK receives no further budget refunds.

NET PAYMENTS TO EC BUDGET

£ million

	CASH	CONSTANT* 1983 PRICES
1973	102	374
1974	29	93
1975	-56	-141
1976	167	365
1977	369	708
1978	822	1420
1979	947	1431
1980	706	890
1981	397	448
1982	606	638
1983	647	647

* Using GDP deflator

contribution to that part of the Community budget which the Commission allocate between Member States (the so called "allocated" budget, which excludes Community expenditure on overseas aid and certain other items). This follows the approach used in the last White Paper. It is, as before, a stylised assumption, not a forecast nor a negotiating objective. The Stuttgart European Council decided that, for the future, the Community should seek to agree "measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing". Discussions are continuing within the Community on how this might be achieved. The UK has proposed that a "safety net" arrangement be introduced to ensure that no Member State bears an unreasonable burden. The estimate of the UK's net contribution to the Community budget in future years would be subject to revision in the light of the precise arrangement agreed.

35. Tables 2.2.5 and 2.2.6 present the latest estimates of our net budget contribution on a "payments" and "budget" basis, respectively. Table 2.2.5 shows the net payments actually made during UK financial years, irrespective of the Community budget to which they relate or from which they are financed. Table 2.2.6 shows our net contribution in respect of a particular Community budget, regardless of when the payments and receipts actually take place. It shows our refunds against the year to which they relate. Thus our refunds for 1981 are shown against our net contribution to the 1981 budget (excluding refunds), even though they were mostly paid from the 1982 budget.

36. Tables 2.2.5 and 2.2.6 show gross contributions and gross receipts, including negotiated refunds, as well as our net contributions. Gross contributions are made under the "own resources" system, established by a Council decision on 12 April 1970. Under this system, which has applied to the six original Member States in full since 1978 and the UK, Denmark and Ireland in full since 1980. Member States pay over monthly to the Community agricultural levies, customs duties and the yield of a value added tax not exceeding 1 per cent of the value of transactions included in a harmonised base agreed in 1977. The budget is financed almost entirely from these own resources. The projections in this White Paper assume that the existing basis of own resources will be maintained, and in particular that the 1 per cent limit on VAT own resources will remain in force. The European Commission have proposed that this limit be increased to 1.4 per cent and this proposal is supported by a number of Member States. The UK has made it clear that it would be prepared to consider an increase in own resources provided that agreement was reached on an effective control of agricultural and other expenditure, and provided this was accompanied by an arrangement to ensure a fair sharing of the financial burden so that no country has to pay a share disproportionate to its relative national wealth.

37. Gross receipts from the budget by UK public sector bodies (other than negotiated refunds) come mainly from the Agricultural Guidance and Guarantee Fund, the Social and Regional Funds, and refunds in respect of own resources collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the UK which gives rise to these receipts scores as public expenditure in the programmes concerned. The UK's share of total receipts (other than negotiated refunds) in 1984 is expected to be of the order of

Net Payments to European Community Institutions

32. The UK's net payments to European Community Institutions, shown in Table 2.2, are made up of three components: net payments to the European Community budget (excluding our share of the cost of the Community's overseas aid expenditure, which is included within the aid programme); contributions to the capital of the European Investment Bank (EIB); and receipts from the European Coal and Steel Community (the ECSC). As shown in Table 2.2, the main component is our net payments to the European Community budget. These are calculated as the difference between our gross payments to, and public sector receipts from, the budget. Since 1980-81, our EEC net contribution has been much reduced by budget refunds, which are enabling other areas of public expenditure in the UK to be maintained at higher levels than could otherwise be afforded.

33. The latest estimate of our net contribution to European Community Institutions in 1983-84 is £500 million, compared with £616 million in 1982-83. The estimate for 1983-84 takes account of the agreement reached at the European Council Meeting in Stuttgart in June 1983 that the UK would receive refunds of 750 million ecus net (about £440 million) in respect of our contribution to the Community budget in 1983. These refunds have been entered in the 1984 Community budget and it is assumed that the bulk will be paid by 31 March 1984. The remainder should be paid by the end of 1984. The Stuttgart refunds will finance expenditure in the UK on energy, transport and employment measures. The effect of the agreement reached at Stuttgart is that, on average, in respect of the four years 1980 to 1983, the UK's net contribution to the budget has been reduced by around two-thirds.

34. For future years, 1984-85 to 1986-87, it has been conventionally assumed that the UK will continue to receive a refund of two-thirds of our estimated net

2.2 Overseas Aid and Other Overseas Services

12¼ per cent. Table 2.2.7 provides a breakdown of the UK's receipts from the budget for past periods. Also shown are the Government's expectations as to future receipts.

38. The projections for future years of both our gross contributions and our receipts—and hence of our net contribution to the Community budget—are very uncertain. The forecast of our gross contributions is dependent on, amongst other things, changes in imports and import prices (particularly the prices of certain agricultural products), while the forecast of our gross receipts is dependent on future changes in the level and pattern of expenditure within the Community as a whole. Agricultural receipts are particularly difficult to predict accurately.

39. The final element in the calculation of the UK's net payments to European Community Institutions is the exclusion of the UK's contribution to the overseas aid element of the Community budget. This expenditure is attributed to the overseas aid programme, Programme 2.5.

European community budget: UK payments and receipts by UK financial years⁽¹⁾

	£ million cash				
	Gross payments	Public sector receipts	Negotiated refunds	Net payments including overseas aid ⁽²⁾	Net payments excluding overseas aid ⁽²⁾
1978-79	1,323	555	—	768	743
1979-80	1,665	781	—	884	837
1980-81	1,900	970	645	285	255
1981-82	2,330	1,128	959	243	157
1982-83	2,787	1,240	836	711	616
1983-84	3,087	1,656	809	622	522
1984-85 ⁽⁴⁾	3,171	1,625	1,061	485	375
1985-86 ⁽⁴⁾	3,493	1,680	1,148	665	550
1986-87 ⁽⁴⁾	3,761	1,785	1,251	725	600

⁽¹⁾For 1983-84 onwards, an exchange rate of 1.73 ecus to the £ is assumed.

⁽²⁾Payments in respect of overseas aid are included within programme 2.5 in Table 2.2.

⁽³⁾Included within programme 2.7 in Table 2.2.

⁽⁴⁾The figures for 1984-85 and after reflect the stylised assumption on budget refunds explained in paragraph 34.

UK contributions and receipts arising out of successive community budgets⁽¹⁾

	£ million			
	1980	1981	1982	1983
Allocated budget⁽²⁾				
Gross contributions	1,834	1,849	2,459	2,841
Gross receipts	951	1,062	1,312	1,694
Net contribution	833	787	1,147	1,147
Unallocated budget⁽³⁾				
Net contribution	31	118	-16	81
Negotiated refunds (net)	645	783	669	434
Net contribution after refunds	269	122	462	797

⁽¹⁾This table is intended to indicate the net financial obligations on the UK which result from successive Community budgets. It differs from the other tables in this chapter by bringing together as far as possible all transactions in respect of successive annual budgets, irrespective of when receipts and payments occur and by showing negotiated refunds against the annual budget in respect of which they are paid.

⁽²⁾The allocated budget covers those elements of expenditure and related financing which the Commission takes into account for the purpose of implementing the budget agreements.

⁽³⁾Includes miscellaneous revenue and timing adjustments but excludes negotiated refunds.

⁽⁴⁾Converted at the rate of 1.73 ecus to the £. It is assumed that the bulk of our refunds in respect of 1983 will be paid by 31 March 1984.

Gross receipts from the community budget

	£ million cash								
	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Receipts other than negotiated refunds									
Agricultural Guarantee and Guidance Fund	334	418	601	735 ⁽¹⁾	745 ⁽¹⁾	1,066 ⁽¹⁾	1,077	1,118	1,119
Social Fund	59	115	105	112	150	191	183	187	19
Regional Development Fund	52	117	119	136	155	170	183	192	20
Refund of own resources collection costs	100	112	110	113	134	135	141	150	16
Other receipts	10	19	35	32	56	94	41	33	2
Total	555	781	970	1,128	1,240	1,656	1,625	1,680	1,78
Negotiated refunds									
Financial mechanism	—	—	211	-211 ⁽²⁾	—	—	1,061	1,148	1,25
Supplementary measures	—	—	434	1,170	836	809	—	—	—
Total net refunds	—	—	645	959	836	809	1,061	1,148	1,25

⁽¹⁾The pattern of agricultural receipts between 1981-82 and 1983-84 partly reflects an uneven timing of payments.

⁽²⁾The financial mechanism instalment received in 1980-81 was repaid in 1981-82 and converted into supplementary measures in 1981-82.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 824 OF 2 JULY

INFO IMMEDIATE CABINET OFFICE (WILLIAMSON)

INFO SAVING UKREP BRUSSELS

TELECON RENWICK/TIMMS: POST-FONTAINEBLEAU ISSUES AND ENLARGEMENT

1. MISS TIMMS RAISED WITH LEGRAS TODAY VARIOUS POINTS ON EC ENLARGEMENT. LEGRAS ALSO VOLUNTEERED SOME THOUGHTS ON THE FOUNTAINEBLEAU AGREEMENT AND THE PROBLEM OF FINANCING THE COMMUNITY BUDGET DURING 1984/85.

2. ON THE BUDGET SETTLEMENT, LEGRAS WAS CONVINCED THAT THE OUTCOME WAS THE MOST SATISFACTORY DEAL AVAILABLE. BUT HE FORESAW THE NEED TO RE-START NEGOTIATIONS IN 1986, POSSIBLY SOONER, SINCE THE NEW OWN RESOURCES WOULD LAST THREE YEARS AT THE MOST. THE BRITISH WERE WELL PLACED TO CONCLUDE A SATISFACTORY DEAL FROM THEN ON. MORE IMMEDIATELY, THE QUESTION OF FINANCING THE 1984/85 SHORTFALL AROSE. LEGRAS WAS CONVINCED THAT THE SOLUTION LAY IN BRINGING FORWARD THE INTRODUCTION OF NEW OWN RESOURCES BY TWO OR THREE MONTHS.

3. ON ENLARGEMENT ISSUES, LEGRAS FELT THAT GOOD PROGRESS HAD BEEN MADE IN ADVANCING THE SPANISH DOSSIER AT THE LAST NEGOTIATING CONFERENCE UNDER DUMAS, ALTHOUGH THE REALLY DIFFICULT ISSUES (OLIVE OIL, FISHERIES) REMAINED. ON OLIVE OIL, MISS TIMMS SAID THAT WE COULD NOT ACCEPT AN EXTENSION OF THE EXISTING ACQUIS TO SPAIN AND PORTUGAL BECAUSE OF THE BUDGETARY IMPLICATIONS. LEGRAS REPLIED THAT THE PROBLEM HAD TO BE TACKLED AS A MATTER OF URGENCY. THE FRENCH TOO WERE OPPOSED TO AN EXTENSION OF THE ACQUIS. HE PERSONALLY WAS STRONGLY IN FAVOUR OF QUOTAS ON OLIVE OIL PRODUCTION ACROSS THE ENLARGED COMMUNITY: INDEED THERE WAS LITTLE PRACTICABLE ALTERNATIVE IN VIEW OF BUDGET CONSTRAINTS. BUT TOO LITTLE TIME REMAINED TO NEGOTIATE PRODUCTION QUOTAS BEFORE THE DATE OF ENLARGEMENT AND IN ANY CASE THE ITALIANS WOULD PUT UP VERY STRONG RESISTANCE. THE WAY FORWARD SHOULD THEREFORE BE TO INTRODUCE STANDSTILL ARRANGEMENTS ON THE ACCESSION OF SPAIN AND PORTUGAL, IN ORDER TO BUY TIME TO NEGOTIATE AN ACCEPTABLE QUOTA DEAL. ON WINE, LEGRAS SAID THE LONG-TERM SOLUTION ALSO LAY IN PRODUCTION QUOTAS, HOWEVER DIFFICULT THOSE WOULD BE TO APPLY TO FRENCH PRODUCERS IN THE MIDI. MEANWHILE, THE FRENCH PRESIDENCY HAD INITIATED AN URGENT DEBATE IN THE HIGH LEVEL GROUP ON WAYS OF CONTROLLING EC WINE PRODUCTION.

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4. ON INSTITUTIONAL ISSUES RELATED TO ENLARGEMENT, MISS TIMMS RAISED THE QUESTION OF THE QUALIFIED MAJORITY VOTE: IN THE UK VIEW THE SYSTEM MUST PERMIT TWO LARGE MEMBER STATES ACTING TOGETHER NEVER TO BE OUT-VOTED BY THE REST. THUS IF SPAIN OBTAINED 8 VOTES, THE QUALIFYING MAJORITY WOULD HAVE TO BE 57. LEGRAS THOUGHT THE SPANISH WOULD PRESS FOR TEN VOTES, IN ACCORDANCE WITH THEIR VIEW THAT THEY MERITED LARGE MEMBER STATUS. BUT THE UK IDEA WAS AN ATTRACTIVE ONE, WHICH HE WOULD BE VERY INTERESTED IN PURSUING. THE GERMANS OUGHT IN PRINCIPLE TO BE ATTRACTED TO IT ALSO, BUT LEGRAS THOUGHT THEY COULD NOT BE COUNTED ON.

5. ON THE SIZE OF THE COMMISSION, LEGRAS REVEALED HIS PERSONAL PREFERENCE FOR A COMMISSION SLIGHTLY SMALLER THAN THE TOTAL NUMBER OF MEMBER STATES, CONSISTENT WITH THE NUMBER OF MEANINGFUL DOSSIERS (ABOUT NINE). BUT HE RECOGNISED THAT THIS WAS UNNEGOTIABLE. ALTHOUGH THERE WERE ATTRACTIONS IN THE UK PROPOSAL TO REDUCE THE NUMBER TO TWELVE, HE FEARED THAT THE COMMUNITY WOULD BE SADDLED WITH 17, COME WHAT MAY. AS TO THE NEXT PRESIDENT OF THE COMMISSION, LEGRAS SAID THE SUBJECT HAD HARDLY BEEN TACKLED AT FONTAINEBLEAU: SO FAR AS HE KNEW, ANDRIESEN, DAVIGNON, AND A DANISH CANDIDATE WERE IN THE FIELD. HE HAD BEEN SURPRISED THAT THE GERMANS HAD NOT SO FAR FORMALLY SUBMITTED A NAME. HE UNDERSTOOD THAT CHEYSSON REMAINED INTERESTED IN THE POST AND THAT HIS CANDIDATURE WAS BEING CONSIDERED AT A HIGH LEVEL.

6. PROGRESS ON THE LOME RE-NEGOTIATION WAS BRIEFLY RAISED. LEGRAS THOUGHT THE UK POSITION ON THE SIZE OF THE EDF HAD BEEN UNHELPFUL. IN HIS VIEW, THE BRITISH WOULD HAVE TO TAKE A MORE FLEXIBLE POSITION BY THE TIME NEGOTIATIONS RESUMED IN EARNEST IN SEPTEMBER.

FCO PASS SAVING UKREP BRUSSELS

(REPEATED AS REQUESTED)

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Cc Byg

EUROPEAN COUNCIL MEETING AT FONTAINEBLEAU
CONCLUSIONS OF THE PRESIDENCY

The attached text of Conclusions of the Presidency was issued following the European Council meeting in Fontainebleau on 25/26 June.

Conclusions 1. (Budgetary Imbalances), 2. (Own Resources and Enlargement) and 4. (Dismantling of Positive MCAs in the Federal Republic of Germany) were discussed and agreed by Heads of Government in the European Council. The remaining texts have been issued on the authority of the Presidency.

Foreign and Commonwealth Office
29 June 1984

EUROPEAN COUNCIL MEETING AT FONTAINEBLEAU
CONCLUSIONS OF THE PRESIDENCY

The European Council, meeting at Fontainebleau on 25 and 26 June 1984, adopted the decisions on the questions left in abeyance at its meeting in Brussels on 19 and 20 March 1984.

The European Council also confirmed the points of agreement which it has reached in Brussels. It took note of the progress made in regard to new policies and discussed environment and health issues. It adopted new guidelines for the reactivation of European co-operation.

1. BUDGETARY IMBALANCES

1. Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances.

However, it has been decided 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 basis for the correction is the gap between the share of VAT payments and the share of expenditure allocated in accordance with the present criteria.

2. As far as the United Kingdom is concerned, the following arrangement is adopted:
 - for 1984, a lump sum of 1000 MECUS is fixed;
 - from 1985 the gap (base of the correction) as defined in § 1 is, for the period referred to in § 4, corrected annually at 66%.

3. The corrections foreseen in § 2 will be deducted from the United Kingdom's normal VAT share in the budget year following the one in respect of which the correction is granted. The resulting cost for the other Member States will be shared among them according to their normal VAT share, adjusted to allow the FRG's share to move to 2/3 of its VAT share.

4. The correction formula foreseen in § 2 (2nd indent) will be a part of the decision to increase the VAT ceiling to 1,4%, their durations being linked.

One year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

- the result of the budgetary discipline
- the Community's financial needs
- the breakdown of the budgetary costs among Member States, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will re-examine the question as a whole and will take the appropriate decisions ex novo.

2. OUR RESOURCES AND ENLARGEMENT

The maximum rate of mobilization of VAT will be 1,4% on 1 January 1983; this maximum rate applies to every Member State and will enter into force as soon as the ratification procedures are completed, and by 1 January 1985 at the latest.

The maximum rate may be increased to 1,6% on 1 January 1983 by unanimous decision of the Council and after agreement has been given in accordance with national procedures.

The European Council confirms that the negotiations for the accession of Spain and Portugal should be completed by 30 September 1984 at the latest. Between now and then the Community will have to make every effort to create the right conditions for the success of this enlargement, both in the negotiations with Spain on fisheries to ensure the conservation of fish stocks and also by reforming the common organization of the wine market to ensure that the quantities of wine produced in the Community are controlled and by means of a fair balance between agricultural and industrial agreements.

3. FINANCING OF THE 1984 BUDGET

The European Council agreed that, pending national parliaments' ratification of the increase in own resources, steps will be taken at the next (Budget) Council meeting to cover the needs of the 1984 budget to ensure that the Community operates normally.

3. Dismantling of positive monetary compensatory amounts
in the Federal Republic of Germany

The European Council asks the Commission to propose, and the Council to decide on, measures which will enable VAT relief for German agriculture under the German national budget to be increased from 3% to 5% with effect from 1-July-1984 until 31 December 1988 in compensation for dismantling the monetary compensatory amounts; the compensation shall not exceed the amounts dismantled.

- 7 -

SOCIAL POLICY

The European Council asks the Commission to carry out the work programme set out in the Community's medium-term social action plan and to forge ahead with the work stemming from the Council's conclusions on technological change and social adjustment and with that on production organization.

A PEOPLE'S EUROPE

The European Council considers it essential that the Community should respond to the expectations of the people of Europe by adopting measures to strengthen and promote its identity and its image both for its citizens and for the rest of the world.

An ad hoc Committee will be set up to prepare and co-ordinate this action. It will be composed of representatives of the Heads of State or of Government of the Member States.

The European Council approves the agreement reached on the principle of creating a European passport and asks the Council to take the necessary decisions to ensure that this passport is actually available to Member States' nationals by 1 January 1985 at the latest.

It asks the Council and the Member States to put in hand without delay a study of the measures which could be taken to bring about in the near future, and in any case before the middle of 1985:

- a single document for the movement of goods;
- the abolition of all police and customs formalities for people crossing intra-Community frontiers;
- a general system for ensuring the equivalence of university diplomas, in order to bring about the effective freedom of establishment within the Community.

The Committee will examine inter alia the following suggestions:

- symbols of the Community's existence, such as a flag and an anthem;
- formation of European sports teams;
- streamlining procedures at frontier posts;
- minting of a European coinage, namely the ECU.

It would also like the Member States to take steps to encourage young people to participate in projects organized by the Community beyond its frontiers, and in particular to support the creation of national committees of European volunteers for development, bringing together young Europeans who wish to work on development projects in the third world.

The ad hoc Committee will also examine the following suggestions:

- measures to combat drug abuse;
- the twinning of children's classes.

The Commission will contribute to the proceedings of the Committee within the limits of its powers.

7. AD HOC COMMITTEE ON INSTITUTIONAL AFFAIRS

The European Council decided to set up an ad hoc Committee consisting of personal representatives of the Heads of State and of Government, on the lines of the "Speak Committee".

The Committee's function will be to make suggestions for the improvement of the operation of European co-operation in both the Community field and that of political, or any other, co-operation.

The President of the European Council will take the necessary steps to implement that decision.

File on to Euro Council Pr 18(?)

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AT to see
eDP 29/6

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

29 June 1984

Charles Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles

FONTAINEBLEAU AGREEMENT

We spoke ^{*att*} about the precise interpretation of your letter to me of 28 June, replying to mine of 27 June. ^{*att*}

... For the record, I attach a revised and authorised version of the note on the financial implication of the Fontainebleau Agreement.

I am also sending a copy to Len Appleyard (FCO).

*Yours ever
David*

D L C Peretz

Financial implications

The terms of the agreement are as follows:-

- The UK will get a final ad hoc refund of £590 million in respect of 1984, to be paid in 1985. With effect from 1986 the UK will get a refund each year of 66 per cent of that part of our budgetary burden in the previous year measured by the difference between our percentage share in the Community's VAT own resources and our percentage share in expenditures from the "allocated" Community Budget. These refunds will be effected by an abatement of our VAT payments to the Budget.
- Measures to guarantee the effective application of budgetary discipline will be introduced. The objectives will be to diminish the share of agricultural expenditure in the budget and to set strict limits on the growth of both agricultural and non-agricultural expenditure.
- Subject to the agreement of Parliament the ceiling on the Community's VAT revenues will be increased from 1 per cent to 1.4 per cent. The system of budgetary refunds will be legally binding and incorporated in the new Own Resources decision, which cannot be changed without the UK's agreement. This ensures that the refunds will continue as long as the 1.4 per cent VAT ceiling lasts.
- The agreement also refers to the possibility of a further increase in the VAT ceiling to 1.6 per cent. Any such further increase could only take place with the agreement of the UK Government and the approval of the House of Commons.
- France and Italy have withdrawn their objections to payments of the UK's net rebate of £440 million in respect of 1983, which will be paid as soon as possible.

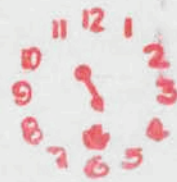
2. Financially this agreement is better than the arrangement on offer in March and far better than the alternative of having no agreement at all. If no agreement had been reached the refunds due to HMG this year would have been lost. Moreover there would have been no agreement on refunds for any future years.

3. Without any increase in the 1 per cent VAT ceiling, the UK's net contribution would have been more than twice as much as under the new system we have negotiated.

4. The agreement has the following further important features:-

- the UK's VAT rate after the refunds now agreed will remain less than 1 per cent for the foreseeable future, while all our partners pay more than 1 per cent;
- at the margin the UK's net contribution to new Community expenditure will not exceed about 7 per cent in contrast with our current maximum marginal contribution of about 21 per cent;
- the new 1.4 per cent VAT figure is a maximum, not an entitlement; it will not all be used up immediately. The purpose of the new arrangements on budgetary discipline is to ensure that the Community lives within the new ceiling for as long as possible.
- Germany will remain and France will become substantial net contributors. As a consequence they too will have a strong interest in securing effective budgetary discipline.

9 JUN 1984



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PM/84/110

PRIME MINISTER

Outcome of Fontainebleau

1. The details of the agreement reached at the European Council at Fontainebleau on 26 June are important but complex. I believe that Colleagues may find it useful to have the attached note explaining the main features of the agreement. It is designed both for their own use and for the briefing of backbenchers, journalists and other contacts.

2. I am sending copies of this minute to all members of Cabinet, with the suggestion that they make copies available to junior Ministers and Parliamentary Private Secretaries. I am making separate arrangements for copies to be sent to Conservative backbenchers and to British members of the European Democratic Group.

GEOFFREY HOWE

Foreign and Commonwealth Office
28 June 1984

CEPC
②

Prime Minister

CDP
25/6

mt

OUTCOME OF EUROPEAN COUNCIL, FONTAINEBLEAU

25/26 JUNE

INDEX

1. Main Features of Budget Agreement
2. Community Budget: Own Resources
3. Community Budget: Britain's contribution
4. Community Budget: Discipline
5. Agriculture
6. New Policies

1. MAIN FEATURES OF THE BUDGET AGREEMENT:

A. We will get back 66% of the VAT/Expenditure share gap..

B. This means that, even with an increased VAT ceiling, we shall be paying around half what we would have had to pay with no increase in the VAT ceiling and no agreement on refunds.

C. Even if the VAT ceiling of 1.4% were called up in its entirety, our rate of contribution would remain below 1%.

D. The UK's net contribution to new Community expenditure will be no more than 7% (34% of our VAT share of about 20%).

E. The budgetary system is lasting. Its duration is linked to the duration of new own resources. This can only be changed by unanimous agreement of Member States.

2. COMMUNITY BUDGET: OWN RESOURCES

A. General

The ceiling on the Community's own resources is to be raised from the present level of 1% of VAT revenue to 1.4%. There can be no further increase without the unanimous consent of member governments and the approval of national parliaments.

Levies and duties contribute 40% of the Community's income, while VAT provides 60%. This means that increasing the VAT ceiling from 1% to 1.4% raises the ceiling on the total Community budget by 24%, not 40%.

In practice, the full 1.4% is a maximum. The actual call-up rate should be within this maximum for a considerable number of years. Our share of whatever sum is subsequently called up will, of course, be correspondingly lower. The UK's VAT rate will remain below 1% while all other Member States pay above the 1% rate.

Those who say we should agree to no increase are giving bad advice. Even with the increase in own resources we

shall be paying around half what we would have had to pay with no increase and with no agreement on a budget system. Even on worst case assumptions about agricultural costs we would be substantially better off with the increase in own resources and the budget system than with no increase.

The increase in own resources is necessary for:

- the development of new policies of potential benefit to the United Kingdom (note no. 6)

- the expansion of the Regional and Social Funds, of which we are currently among the largest net beneficiaries (£375m in 1983)

- Spanish and Portuguese membership, which is of major importance to the Alliance

- the payment by others of UK refunds

The agreement on higher own resources was part of a package. Without such a package there would have been:

- (a) no new budget system, ending the need for an

annual crisis over Britain's refunds;

(b) no agreement to reduce agriculture's share of the Community budget;

(c) no agreement on the overall control of Community spending;

(d) agricultural spending would have tended to squeeze out spending of greater benefit to UK, eg on Regional and Social funds.

3. COMMUNITY BUDGET: BRITAIN'S CONTRIBUTION

Since 1980, we have received ad hoc annual refunds as follows:

1980	£645 million
1981	£783 million
1982	£491 million

A further £440 million was agreed for 1983 but was blocked by France and Italy. They have now lifted their reserve. Disagreement over that 1983 refund shows the weakness of annual refunds: they were only achieved after a lengthy, damaging argument and friction with the European Parliament.

We now have a lasting system, which will ensure that we pay no more than our fair share of the budget. Our refunds will be 66% of our contribution as defined in the system.

The method of calculation of our refund is based on the difference between our share of VAT contributions to

the Community budget and our share of receipts from that budget. The agreed system gives us fair relief of our contributions in line with our relative prosperity.

The system can only be changed by the unanimous agreement of all Member Governments. It will be reviewed if and when the new ceiling on own resources is reached. The system will by then have become part of the Community's way of doing things. We shall be able to block any attempt to abolish it.

1983 Refunds

The bulk of the £440m of agreed 1983 refunds should have been paid, on past practice, by the end of March. France and Italy blocked the refunds, pending settlement of the budgetary question. Foreign Ministers meeting immediately after the European Council adopted the regulations releasing the refunds. The European Parliament must now approve transfer of the funds. We expect it to do so in the near future.

4. COMMUNITY BUDGET: DISCIPLINE

This was a key part of the Stuttgart package for Britain.

Two years ago no Member State other than Britain was prepared to contemplate controlling EC expenditure. Now everyone accepts the need. France and Germany, with growing contributions to the Community budget, increasingly share our concern to control costs. We have secured agreement to:

- (i) apply the principles that govern budgetary affairs in individual Member States to the budgetary affairs of the Community as a whole;
- (ii) ensure that a total amount of money available to the Community is fixed annually so that revenue determines expenditure, not the other way round as in the past;
- (iii) restrict any future growth in agricultural spending to less than the rate of growth of the Community's own resources base.

Finance ministers have been asked to draw up an implementing text incorporating the measures necessary

to guarantee the effective application of the agreement. The increase in own resources will only be ratified when these measures are in place.

1984 Budget Overrun

This issue has been referred to the Budget Council on 19 July. Nearly all Member States have objected to the Commission's proposal to raise a loan and have insisted on savings being found. The European Court of Auditors has also criticised the Commission for not examining all the available options for savings. Britain and the Netherlands have put forward detailed proposals for savings in the agricultural sector.

1985 Preliminary Draft Budget

The Commission's proposals exceed the 1% ceiling. But these are just proposals. The budget must, as the Council legal services in Brussels have advised, conform to the own resources ceiling. Under the Treaty of Rome the Community could not in law adopt a budget which exceeded the ceiling.

5. AGRICULTURE

Agricultural spending will be brought under control as part of the agreement on budgetary discipline (Note no 4). As part of the post-Stuttgart package, Agriculture Ministers made an important start in March on the reform of the detailed working of the Common Agricultural Policy.

For the first time:

- (i) prices were cut;
- (ii) measures were taken to reduce the milk surplus
- (iii) the principle of guarantee thresholds was agreed for products in or entering surplus.

The CAP was out of control because of:

- (i) open-ended payment obligations leading to wasteful and costly surpluses;
 - (ii) a widening gap between Community and world food prices.
 - (iii) the lopsided subsidisation of the agricultural Community at the expense of other sectors of society.
- In addition, CAP expenditure has been a major cause of our excessive budgetary contribution, since only 2.7% of our active population is engaged in agriculture,

compared to a Community average of 7.5%. For this reason, we receive just 10.5% of CAP expenditure while we contribute 24% of the Community budget.

The CAP is now being brought under control. But more needs to be done. Useful progress was made at Fontainebleau on controlling the cost of the wine regime. We shall continue to press for lower prices for cereals and other products in surplus, and for the narrowing of the difference between EC and world prices.

6. NEW POLICIES

The Community has agreed on a number of priorities.

These include:

- Measures to break down the remaining barriers to the common market (eg simplification of trade and custom formalities, harmonisation of standards and products); this will play an important role in economic recovery and job creation;
- Liberalisation of trade in services, notably road transport, air travel and insurance.
- Increased percentage of the budget to be devoted to research and development and in particular initiatives on telecommunications and biotechnology;
- Action on the environment (eg a firm date - no later than 1990 - for the introduction of unleaded petrol in the Community).



Members' Brief

No. 19
28th June 1984

AGREEMENT AT THE EUROPEAN COUNCIL AT FONTAINEBLEAU, 25th-26th JUNE

The Agreement at Fontainebleau marks a successful conclusion to the Government's persistent efforts to secure a lasting solution to the problem of Britain's inequitable budgetary burden. The arrangements made for Britain are far better than anything previously on offer and far better than the offer made to the Government at the Brussels Council in March.

Main Elements of the Agreement

- (i) A refund for 1984 of about £600 million (1 billion ECU).
- (ii) A new system for correcting UK budgetary imbalances under which we will receive a refund of 66% of the gap between our share of VAT and our share of expenditure. The refunds will be implemented in the manner the Government requested, by reducing the UK's VAT payments to the Community in each successive year.
- (iii) The Council of Ministers approved the necessary regulations to release Britain's refund for 1983 of about £440 million (750 million ECU).
- (iv) Finance Ministers are working on the precise measures to guarantee the effective application of budgetary discipline, that is, measures to ensure that the rigorous rules which at present govern budgetary policy in each member state also apply to the budget of the Community.
- (v) The European Council agreed that the own resources ceiling should be increased to 1.4% of VAT. Because VAT forms about 60% of total Community revenues, the increase from 1.0% to 1.4% in the VAT ceiling represents an increase in available Community revenue of only about 24%. On the question of raising the ceiling, the Prime Minister said: 'The Government will be prepared in due course, and when the arrangements are in place on budget discipline, to recommend to the House that the own resources ceiling should be increased to 1.4% of VAT.' (Hansard, 27th June, 1984, col. 993).
- (vi) Progress was also made in other areas. The European Council confirmed that the negotiations for the accession of Spain and Portugal should be completed by the end of September this year so that they can enter the Community in 1986. The renewal of the Lome Agreement (Lome III) was discussed. Measures on the future development of the Community were also discussed. The Government laid particular emphasis on the importance of achieving a genuine common market in goods and services leading to the creation of new jobs throughout the Community.

What the Deal means for Britain

- (i) We will continue to receive large refunds. The Government has already negotiated refunds in excess of £2.5 billion since taking office. This deal means that henceforth we will obtain similar protection from excess contributions. As the Prime Minister said: 'Under the new VAT ceiling of 1.4% for the Community as a whole, the UK will itself be contributing less than we are at present liable to contribute under the 1.0% limit.'

- (ii) The Agreement is durable. As Mrs. Thatcher said, ' this system can be changed only by a unanimous decision by all member governments and ratified by their Parliaments. The benefits for the United Kingdom will continue unless and until we ourselves agree to change it.' (ibid.)
- (iii) The Agreement will put an end to the annual haggle over the budget problem. This has absorbed the energies of heads of government at successive European Council meetings. The way is now open for new policies to be developed. As the Prime Minister said:

' The outcome of the Council is good for Britain and good for the Community.

'It will result in Britain's paying for the foreseeable future lower contributions than would have been due under existing arrangements with the 1% VAT ceiling; it will make possible a relaunching of the Community in which Britain will play a full role; will give an impetus to enlargement, thus strengthening democracy in Spain and Portugal; and remove what has been a constant source of friction in our relations with the Community ever since we joined.'

Labour's Dire Record

The Conservatives were able to negotiate this Agreement because our commitment to membership is taken seriously by our Community partners. Labour have changed their mind five times on the question of membership. Only a year ago their General Election Manifesto said: 'British withdrawal from the Community is the right policy for Britain - to be completed well within the lifetime of the Parliament. That is our commitment.' Yet their European Election manifesto reads: 'Britain, like all member states, must retain the option of withdrawal from the EEC.'

Labour's own negotiating record should not be forgotten. Had the Government not obtained this settlement, the terms which Labour negotiated would have resulted in the UK paying £1.2 billion to the Community this year. Moreover, their protracted renegotiation of the terms of membership failed to obtain any refunds for Britain and they allowed our contributions to get out of all control. At constant 1983 prices, Labour's contribution for the last two years for which they were responsible (the only two not benefiting from the Conservatives' negotiated transitional arrangements) was £1,425 million. By contrast, contributions for the four years 1980-3 inclusive were only £655 million at constant prices.

Labour have no policies for Europe, merely a hotchpotch of incompatible statements designed to shore up the deep divisions within their party.

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THE FONTAINEBLEAU SUMMIT

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OUTCOME OF EUROPEAN COUNCIL, FONTAINEBLEAU

25/26 JUNE

INDEX

1. Main Features of Budget Agreement
2. Community Budget: Own Resources
3. Community Budget: Britain's contribution
4. Community Budget: Discipline
5. Agriculture
6. New Policies

1. MAIN FEATURES OF THE BUDGET AGREEMENT:

A. We will get back 66% of the VAT/Expenditure share gap.

B. This means that, even with an increased VAT ceiling, we shall be paying around half what we would have had to pay with no increase in the VAT ceiling and no agreement on refunds.

C. Even if the VAT ceiling of 1.4% were called up in its entirety, our rate of contribution would remain below 1%.

D. The UK's net contribution to new Community expenditure will be no more than 7% (34% of our VAT share of about 20%).

E. The budgetary system is lasting. Its duration is linked to the duration of new own resources. This can only be changed by unanimous agreement of Member States.

2. COMMUNITY BUDGET: OWN RESOURCES

A. General

The ceiling on the Community's own resources is to be raised from the present level of 1% of VAT revenue to 1.4%. There can be no further increase without the unanimous consent of member governments and the approval of national parliaments.

Levies and duties contribute 40% of the Community's income, while VAT provides 60%. This means that increasing the VAT ceiling from 1% to 1.4% raises the ceiling on the total Community budget by 24%, not 40%.

In practice, the full 1.4% is a maximum. The actual call-up rate should be within this maximum for a considerable number of years. Our share of whatever sum is subsequently called up will, of course, be correspondingly lower. The UK's VAT rate will remain below 1% while all other Member States pay above the 1% rate.

Those who say we should agree to no increase are giving bad advice.. Even with the increase in own resources we

shall be paying around half what we would have had to pay with no increase and with no agreement on a budget system. Even on worst case assumptions about agricultural costs we would be substantially better off with the increase in own resources and the budget system than with no increase.

The increase in own resources is necessary for:

- the development of new policies of potential benefit to the United Kingdom (note no. 6)

- the expansion of the Regional and Social Funds, of which we are currently among the largest net beneficiaries (£375m in 1983)

- Spanish and Portuguese membership, which is of major importance to the Alliance

- the payment by others of UK refunds

The agreement on higher own resources was part of a package. Without such a package there would have been:

- (a) no new budget system, ending the need for an

annual crisis over Britain's refunds;

(b) no agreement to reduce agriculture's share of the Community budget;

(c) no agreement on the overall control of Community spending;

(d) agricultural spending would have tended to squeeze out spending of greater benefit to UK, eg on Regional and Social funds

3. COMMUNITY BUDGET: BRITAIN'S CONTRIBUTION

Since 1980, we have received ad hoc annual refunds as follows:

1980	£645 million
1981	£783 million
1982	£491 million

A further £440 million was agreed for 1983 but was blocked by France and Italy. They have now lifted their reserve. Disagreement over that 1983 refund shows the weakness of annual refunds: they were only achieved after a lengthy, damaging argument and friction with the European Parliament.

We now have a lasting system, which will ensure that we pay no more than our fair share of the budget. Our refunds will be 66% of our contribution as defined in the system.

The method of calculation of our refund is based on the difference between our share of VAT contributions to

the Community budget and our share of receipts from that budget. The agreed system gives us fair relief of our contributions in line with our relative prosperity.

The system can only be changed by the unanimous agreement of all Member Governments. It will be reviewed if and when the new ceiling on own resources is reached. The system will by then have become part of the Community's way of doing things. We shall be able to block any attempt to abolish it.

1983 Refunds

The bulk of the £440m of agreed 1983 refunds should have been paid, on past practice, by the end of March. France and Italy blocked the refunds, pending settlement of the budgetary question. Foreign Ministers meeting immediately after the European Council adopted the regulations releasing the refunds. The European Parliament must now approve transfer of the funds. We expect it to do so in the near future.

4. COMMUNITY BUDGET: DISCIPLINE

This was a key part of the Stuttgart package for Britain.

Two years ago no Member State other than Britain was prepared to contemplate controlling EC expenditure. Now everyone accepts the need. France and Germany, with growing contributions to the Community budget, increasingly share our concern to control costs. We have secured agreement to:

(i) apply the principles that govern budgetary affairs in individual Member States to the budgetary affairs of the Community as a whole;

(ii) ensure that a total amount of money available to the Community is fixed annually so that revenue determines expenditure, not the other way round as in the past;

(iii) restrict any future growth in agricultural spending to less than the rate of growth of the Community's own resources base.

Finance ministers have been asked to draw up an implementing text incorporating the measures necessary

to guarantee the effective application of the
agreement. The increase in own resources will only be
ratified when these measures are in place.

1984 Budget Overrun

This issue has been referred to the Budget Council on
19 July. Nearly all Member States have objected to the
Commission's proposal to raise a loan and have
insisted on savings being found. The European Court
of Auditors has also criticised the Commission for
not examining all the available options for savings.
Britain and the Netherlands have put forward detailed
proposals for savings in the agricultural sector.

1985 Preliminary Draft Budget

The Commission's proposals exceed the 1% ceiling. But
these are just proposals. The budget must, as the
Council legal services in Brussels have advised,
conform to the own resources ceiling. Under the Treaty
of Rome the Community could not in law adopt a budget
which exceeded the ceiling.

5. AGRICULTURE

Agricultural spending will be brought under control as part of the agreement on budgetary discipline (Note no 4). As part of the post-Stuttgart package, Agriculture Ministers made an important start in March on the reform of the detailed working of the Common Agricultural Policy.

For the first time:

- (i) prices were cut;
- (ii) measures were taken to reduce the milk surplus
- (iii) the principle of guarantee thresholds was agreed for products in or entering surplus.

The CAP was out of control because of:

- (i) open-ended payment obligations leading to wasteful and costly surpluses;
 - (ii) a widening gap between Community and world food prices.
 - (iii) the lopsided subsidisation of the agricultural Community at the expense of other sectors of society.
- In addition, CAP expenditure has been a major cause of our excessive budgetary contribution, since only 2.7% of our active population is engaged in agriculture,

compared to a Community average of 7.5%. For this reason, we receive just 10.5% of CAP expenditure while we contribute 24% of the Community budget.

The CAP is now being brought under control. But more needs to be done. Useful progress was made at Fontainebleau on controlling the cost of the wine regime. We shall continue to press for lower prices for cereals and other products in surplus, and for the narrowing of the difference between EC and world prices.

6. NEW POLICIES

The Community has agreed on a number of priorities.

These include:

- Measures to break down the remaining barriers to the common market (eg simplification of trade and custom formalities, harmonisation of standards and products); this will play an important role in economic recovery and job creation;
- Liberalisation of trade in services, notably road transport, air travel and insurance.
- Increased percentage of the budget to be devoted to research and development and in particular initiatives on telecommunications and biotechnology;
- Action on the environment (eg a firm date - no later than 1990 - for the introduction of unleaded petrol in the Community).

GRS 580

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TELEGRAM NUMBER 643 OF 28 JUNE

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FONTAINEBLEAU -

GERMAN GOVERNMENT STATEMENT AND FURTHER PRESS REACTION

SUMMARY

1. FEDERAL GOVERNMENT, IN STATEMENT TO PARLIAMENT AND AS REPORTED BY PRESS, UPBEAT ABOUT ACHIEVEMENTS OF FONTAINEBLEAU IN COMPLETING THE STUTTGART PACKAGE AND PAVING THE WAY FOR NEW INITIATIVES IN EUROPE. PRESS COMMENT BY COMPARISON LESS EUPHORIC, WITH ATTENTION TO GERMAN CONCESSIONS AND FUTURE UNCERTAINTIES.

DETAIL

2. CHANCELLOR KOHL BEGAN HIS STATEMENT TO THE BUNDESTAG THIS MORNING WITH AN ASSESSMENT OF THE RESULTS OF THE EUROPEAN COUNCIL. BEGINNING WITH A TRIBUTE TO THE FRENCH PRESIDENCY AND TO PRESIDENT MITTERRAND IN PARTICULAR, HE SAID FONTAINEBLEAU HAD VINDICATED THE 'STUTTGART CONCEPT', SHOWING THAT THE GERMAN STRATEGY FOR A NEW IMPULSE TO REVIVE THE COMMUNITY HAD TACKLED THE CENTRAL PROBLEMS. HE DESCRIBED THE BRITISH BUDGETARY REBATE PROBLEM AS HAVING BEEN SOLVED 'IN A FAIR WAY', WHICH HE CLAIMED WAS THANKS NOT LEAST TO GERMAN COMPROMISE PROPOSALS. HE ALSO THANKED HIS COMMUNITY PARTNERS FOR HAVING SHOWED 'PRACTICAL SOLIDARITY' WITH THE FEDERAL REPUBLIC IN THE MATTER OF GERMAN AGRICULTURAL AIDS. HE MADE NO REFERENCE TO THE AGREEMENT ON THE REDUCED GERMAN CONTRIBUTION TO COMPENSATION FOR THE UK.

3. KOHL'S MAIN THEME WAS THAT THE WAY WAS NOW CLEAR FOR NEW INITIATIVES IN THE DEVELOPMENT OF THE COMMUNITY. OBJECTIVES WHICH HE CITED IN PARTICULAR WERE POLITICAL UNION, COOPERATION IN SECURITY POLICY AND ECONOMIC INTEGRATION. THIS MEANT COMPLETION OF THE INTERNAL MARKET, A RETURN TO MAJORITY DECISIONS IN THE COUNCIL, COMMON EFFORTS IN THE SPHERES OF RESEARCH AND SPACE TECHNOLOGY AND, 'WITH SPECIAL PRIORITY', ENVIRONMENTAL PROTECTION. KOHL ALSO EMPHASISED 'CITIZENS' EUROPE' (A PHRASE WHICH HE IMPLIED HE HAD COINED), IN WHICH HE PRESENTED HIMSELF AND MITTERRAND AS PIONEERS WITH THEIR COMMITMENT TO RELAXATION OF BORDER CONTROLS. HE ALSO MENTIONED SPECIFICALLY MITTERRAND'S STRASBOURG SPEECH AND THE BRITISH MEMORANDUM ON THE FUTURE OF EUROPE AS VALUABLE POINTERS FOR THE FUTURE DIRECTION OF THE COMMUNITY. EMPHASISING THE NEED FOR PRACTICAL MEASURES IN ALL AREAS OF POLICY RATHER THAN LOFTY THEORISING WHICH WAS DIVORCED FROM REALITY, KOHL CONCLUDED WITH A CALL FOR VARIABLE GEOMETRY WITHIN WHICH THOSE MEMBER STATES WHO WERE READY TO TAKE EUROPE FORWARD SHOULD. HE ADDED EXPLICITLY THAT THIS MUST NOT MEAN THE CREATION OF A 'TWO CLASS SYSTEM': EACH MEMBER STATE COULD PARTICIPATE IN EACH INITIATIVE ON EACH OCCASION.

14.

4. TODAY'S PRESS, WHICH OF COURSE PRE-DATES KOHL'S STATEMENT, CONTINUES TO REPORT GOVERNMENT SATISFACTION WITH THE SETTLEMENT BUT, THOUGH SOME PAPERS HAIL THE COUNCIL AS AN UNQUALIFIED SUCCESS, A GOOD DEAL OF SCEPTICISM IS ALSO VOICED ABOUT BOTH THE COUNCIL AND THE GERMANS' ROLE IN IT. THE SUGGESTION THAT FONTAINEBLEAU REFLECTED A NEW EUROPEAN SPIRIT RATHER THAN OLD NATIONAL EGOTISMS IS QUESTIONED, AND THERE ARE COMPLAINTS OF A LACK OF CONCRETENESS IN TALK ABOUT FUTURE OBJECTIVES. THE FEDERAL GOVERNMENT IS GRUDGINGLY APPLAUDED FOR HAVING SECURED A REDUCTION IN THE GERMAN CONTRIBUTION TO BRITISH REBATES BUT CRITICISED FOR HAVING MANOEUVRED ITSELF INTO THE POSITION OF DEMANDEUR ON AGRICULTURAL SUBSIDIES - LUEKE IN WELT "THATCHER HAS HER BILLIONS AND KOHL HAS PERMISSION TO SPEND HIS". THE FARMERS' SUBSIDY CONTINUES TO BE WIDELY CRITICISED: INTER ALIA BUNDESBANK PRESIDENT POEHL'S CRITICISM IS NOTED. LARGELY IN THE CONTEXT OF THE SUBSIDY THE FONTAINEBLEAU SETTLEMENT IS NOTED AS BEING EXPENSIVE TO THE GERMAN TAX PAYER.

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TELEGRAM NUMBER 814 OF 28TH JUNE

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MY TELNO 800: FONTAINEBLEAU: FRENCH REACTIONS.

SUMMARY.

1. GENERAL RELIEF AT BUDGET AGREEMENT, COMBINED WITH SATISFACTION AT SUCCESSFUL CONCLUSION TO FRENCH PRESIDENCY. TERMS OF BUDGET SETTLEMENT SEEN AS A COMPROMISE, WITH BRITAIN CONCEDED MORE THAN EXPECTED BUT ACHIEVING HER ESSENTIAL OBJECTIVES. INCREASING RECOGNITION THAT BRITISH DEMANDS WERE REASONABLE. NEVERTHELESS SOME SUGGESTIONS, ENCOURAGED BY THE OPPOSITION, THAT THE PROBLEMS HAVE NOT REALLY GONE AWAY. FARM LEADERS HAVE STRONGLY CRITICISED THE RESULTS OF THE WHOLE FRENCH PRESIDENCY.

DETAIL.

2. COVERAGE OF FONTAINEBLEAU HAS BEEN SQUEEZED BY OTHER NEWS - NOT LEAST THE FRENCH VICTORY IN THE EUROPEAN FOOTBALL CUP. LE MONDE PROVIDES THE MOST EXTENSIVE AND MOST INTERESTING COMMENT. ITS EDITORIAL OF 29 JUNE REJECTS ARITHMETICAL ATTEMPTS TO CALCULATE WHO WON OR LOST IN THE BUDGET, ARGUING THAT THE RESULT IS BALANCED. "MME THATCHER DID NOT MAKE HER PARTNERS SURRENDER... SHE HAS ATTAINED HER PRINCIPAL OBJECTIVES: A SUBSTANTIAL COMPENSATION DURABLE THIS TIME, SO INSCRIBED IN THE FACTS THAT IT IS PRACTICALLY PERMANENT. WHAT A DISTANCE TRAVELLED IN TEN YEARS. GREAT BRITAIN, EVEN IF MENTAL ATTITUDES HAVE NOT FOLLOWED, IS ON THE EVIDENCE BETTER INTEGRATED INTO THE COMMUNITY. THE TRADE STATISTICS DEMONSTRATE IT."

3. FROM HERE ON, CONTINUES LE MONDE, "THE TASK OF GOVERNMENTS WILL BE TO ENCOURAGE COMPANIES AND MINISTRIES TO COOPERATE. WHAT IS NOW NEEDED IS NOT MONEY SO MUCH AS THE POLITICAL WILL TO HARMONISE STANDARDS, OPEN NEW MARKETS AND COORDINATE STRATEGIES."

4. IN AN ACCOMPANYING PIECE, LEMAITRE ARGUES THAT BRITAIN HAS ACHIEVED LESS THAN SHE WANTED: 55 PERCENT REFUND OF THE NET CONTRIBUTION, COMPARED TO (A) THE TWO-THIRDS PREVIOUSLY DEMANDED, (B) THE 65 PERCENT AVERAGE ATTAINED FOR 1980-83, AND (C) THE SYSTEM PROPOSED AT BRUSSELS, WHICH HE ALLEGES WOULD HAVE BEEN BETTER FOR BRITAIN AS TIME WENT ON. BUT WHAT IS LEFT, HE ASKS, OF FRENCH DEMANDS FOR ONLY "LUMP SUM, TEMPORARY AND DEGRESSIVE REFUNDS FOR BRITAIN?" THE UK, HE JUDGES, HAS ACHIEVED HER MAIN AIMS. AND REFUNDS ARE JUSTIFIED BECAUSE BRITAIN HAS CHANGED HER TRADE PATTERN AND IT HAS BECOME CLEAR THAT NEW POLICIES WILL NOT CORRECT THE IMBALANCE. BUT, HE WARNS, BUDGETARY NEGOTIATIONS ARE LIKELY TO BE REOPENED IN LESS THAN TWO YEARS.

5. LIBERATION (INDEPENDENT LEFT-WING) AND QUOTIDIEN DE PARIS (RIGHT-WING) ARE CONFIRMED IN THE VIEW, WHICH THEY FIRST EXPRESSED AFTER BRUSSELS, THAT A DIFFERENT KIND OF EUROPE IS COMING INTO BEING, DUE IN LARGE PART TO GERMAN AND BRITISH PRESSURE. 'MRS THATCHER WAS RIGHT' IS THE HEADLINE TO QUOTIDIEN'S EDITORIAL. 'SINCE ATHENS, MRS THATCHER... HAS OBLIGED HER EC PARTNERS, NOT LEAST FRANCE, TO REALIZE JUST HOW APPALLINGLY BADLY THE COMMUNITY WORKS'. FOR QUOTIDIEN THE TRUE EUROPE IS IN INDUSTRY, AND IN LABOUR RELATIONS. FOR LIBERATION, EUROPE IS GOING TO BECOME A FREE TRADE ZONE FOR PEOPLE AND GOODS, IN WHICH EACH COUNTRY WILL CONTINUE TO DEFEND ITS INTERESTS.

6. LIBERATION ALSO SEES DIFFICULTIES ARISING SOON OVER THE 1984 SHORTFALL, OVER DEMANDS FROM FRENCH, ITALIAN AND DUTCH FARMERS, STIMULATED BY CONCESSIONS TO GERMAN FARMERS, AND OVER THE ENLARGEMENT ISSUES OF WINE, OLIVE OIL AND FISH.

7. ON THE POLITICAL FRONT, MOST COMMENT HAS BEEN FAVOURABLE, WITH LITTLE MAJOR CRITICISM SO FAR. NOTHING HAS BEEN HEARD FROM CHIRAC, SIMONÉ VEIL OR GISCARD D'ESTAING. LECANUET, THE PRESIDENT OF THE UDF, SAID YESTERDAY THAT IT WAS FALSE TO CLAIM THAT EUROPE'S DISPUTES HAD BEEN SOLVED. THE BUDGET SETTLEMENT MIGHT HAVE KEPT OPEN THE DOOR FOR EUROPEAN UNION, BUT IT WOULD COST FRANCE DEAR. 'FOR THE MOMENT, THE OLD EUROPE GOES ON AND FRANCE, BADLY GOVERNED AND WEAKENED BY SOCIALISM, IS SADLY UNABLE TO BE ITS MOTOR.'

8. THE OTHER MAIN ATTACK HAS COME FROM THE FARMERS' LEADER, GUILLAUME, WHO SAID ON 27 JUNE THAT THE WHOLE FRENCH PRESIDENCY HAD COST FRANCE DEAR. THE CAP SETTLEMENT IN MARCH HAD BEEN BAD ENOUGH, BUT THE BUDGET DEAL AND THE NEW CONCESSIONS TO GERMAN FARMERS MADE ANOTHER BLACK DAY FOR EUROPE. HOWEVER, LES ECHOS (BUSINESS DAILY), COMMENTING ON THIS STATEMENT, POINTS OUT WITH SOME FORCE THAT, WHATEVER THE CONCERNS OF FRENCH FARMERS ABOUT GERMAN COMPETITION AND ENLARGEMENT, THE ABSENCE OF A BUDGET SETTLEMENT WOULD HAVE HAD MUCH WORSE FINANCIAL CONSEQUENCES FOR THEM.

FRETWELL

E C BUDGET

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From the Private Secretary

28 June 1984

Fontainebleau Agreement

Thank you for your letter of 27 June enclosing a note on the financial implications of the Fontainebleau Agreement. The Prime Minister is content with this note provided that the passages marked with square brackets are deleted before any use is made of it. These deletions include the last sentence of paragraph 3. The Prime Minister remains of the view that we should not put out any figures for our estimated net contribution in future years at this stage.

(C.D. POWELL)

David Peretz, Esq.,
H.M. Treasury.

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GRS 240
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FM BONN 271050Z JUN 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 634 OF 27 JUNE
INFO ROUTINE PARIS UKREP BRUSSELS
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FONTAINEBLEAU SUMMIT: GERMAN MEDIA COVERAGE

SUMMARY

1. OUTCOME OF BUDGET DEBATE GENERALLY SEEN TO BE FAIR: A SUCCESSFUL SUMMIT SHOULD OPEN WAY TO FURTHER PROGRESS.

DETAIL

2. OTHER DEVELOPMENTS, INCLUDING A SUGGESTED COMPROMISE IN THE METAL WORKERS' STRIKE, THE RESIGNATION OF ECONOMICS MINISTER LAMBSDORFF AND THE DEPARTURE OF THE GERMAN FOOTBALL TEAM'S TRAINER, ALL COMPETE WITH THE SUMMIT FOR MEDIA COVERAGE. BOTH BROADCAST AND WRITTEN MEDIA CONCENTRATE ON THE BRITISH REBATE ASPECTS OF THE SUMMIT. THE GENERAL VIEW IS ONE OF RELIEF RATHER THAN REJOICING: KOHL'S REPORTED OBSERVATION 'A VERY RESPECTABLE SETTLEMENT' IS WIDELY ECHOED. THE RESULT IS REPORTED AS A COMPROMISE IN WHICH BOTH SIDES MOVED TO MEET EACH OTHER. SOME PAPERS SUGGEST THAT THE GERMAN NEED TO GAIN APPROVAL FOR THEIR FARM AID SUBSIDIES PUT ADDITIONAL PRESSURE ON THEM TO BE FLEXIBLE. OTHER SUMMIT DECISIONS, INCLUDING THAT TO ESTABLISH AN AD HOC GROUP ON 'CITIZENS' EUROPE' ARE NOTED FACTUALLY.

3. COMMENT IS SPARSE (AND FURTHER LIMITED BY THE NON-APPEARANCE OF 3 MAJOR PAPERS BECAUSE OF THE PRINTER'S STRIKE). SUCH AS THERE IS SEES THE RESULT AS FAIR AND INCLINES TO THE VIEW THAT THE COMMUNITY COULD NOT HAVE STOOD A THIRD 'FAILURE SUMMIT'. SOME HOPE IS EXPRESSED THAT THE DECISION WILL LIFT BARRIERS

TO PROGRESS IN OTHER FIELDS.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 800 OF 27 JUNE

INFO IMMEDIATE UKREP BRUSSELS, PRIORITY OTHER EC POSTS

FONTAINEBLEAU: FRENCH PRESS COVERAGE

SUMMARY

1. LITTLE EDITORIAL COMMENT SO FAR. MOST REPORTING REFLECTS THE 'NEITHER CONQUEROR NOR CONQUERED' LINE OF THE ELYSEE SPOKESMAN ON 26 JUNE AND ACCEPTS THAT BRITAIN AND THE NINE BOTH MADE CONCESSIONS. AGREEMENT SEEN AS A SUCCESS FOR THE FRENCH PRESIDENCY, BUT ONE OR TWO DOUBTS ABOUT THE COSTS AND DURABILITY OF THE BUDGET DEAL AND THE COST OF THE CONCESSION TO GERMAN FARMERS.

DETAIL

2. SAMPLES OF TODAY'S FRENCH PRESS BELOW TO GIVE THE FLAVOUR. MORE DETAILED ANALYSIS TO FOLLOW.

3. LIBERATION (INDEPENDENT LEFT-WING):

'ONE CAN AT LAST TALK ABOUT SOMETHING ELSE AT EUROPEAN SUMMITS. THE PROBLEM OF BRITAIN'S CHEQUE WAS SOLVED YESTERDAY AT FONTAINEBLEAU, AT LEAST FOR A FEW YEARS HOW LONG DOES THE SYSTEM LAST? ... THE BRITISH ... THINK THAT SINCE THE AGREEMENT CANNOT BE OVERTURNED EXCEPT ON A BASIS OF UNANIMITY, IT WILL LAST AS LONG AS THEY WANT ACCORDING TO THE FRENCH THE AGREEMENT REPRESENTED A GREAT REVERSE FOR BRITISH DEMANDS THEY QUALIFIED THE SYSTEM AS LIMITED IN TIME IN SUM THIS AGREEMENT ON THE BRITISH COMPENSATION IS PERHAPS HISTORIC - IT CERTAINLY OPENS 'NEW PATHS FOR THE COMMUNITY', BUT ONE CANNOT HELP THINKING THAT THE DIFFERENCES OF INTERPRETATION ... CARRY THE SEED OF PROBLEMS FOR EUROPE.'

LE MATIN (SOCIALIST):

'WHO WON? NO-ONE, IN REALITY ... MITTERRAND FULFILLED HIS MANDATE TO GET RID OF THE SCARS OF THE PAST AND PUT FORWARD SOME NEW IDEAS. THATCHER LEFT FOR LONDON WITH MONEY IN HER BAG, NOT AS MUCH AS SHE WANTED (LOST OPPORTUNITIES DO NOT RECUR) BUT, THIS TIME, THE CHEQUES ARE DATED AND SIGNED. KOHL GOT WHAT HE WANTED FOR HIS FARMERS. NONE OF THE OTHER SEVEN REBELLED. EACH MADE HIS OWN CONTRIBUTION AND FOR THE FIRST TIME FOR A LONG TIME, THE BRITISH DID SOMETHING FOR EUROPE'.

(1)

ILE

LE FIGARO (RIGHT-WING):

"THE AGREEMENT REACHED WITH GREAT DIFFICULTY IS REGARDED AS SATISFACTORY BY ALL THE PARTICIPANTS IN THE FONTAINEBLEAU SUMMIT ... ONE CAN JUDGE THAT THE AGREEMENT IS SATISFACTORY TO THE EXTENT THAT IT IS BALANCED, EACH HAVING MADE CONCESSIONS."

LE QUOTIDIEN DE PARIS (RIGHT-WING):

"IN AGREEING TO SIGN A CHEQUE FOR 1 BILLION ECU FOR MRS THATCHER, THE PRESIDENT GAINED AN AGREEMENT WHICH COULD PASS FOR A SUCCESS. UNFORTUNATELY, IT IS FRANCE WHICH WILL PAY ... IN EFFECT, IN AGREEING TO REIMBURSE TO MARGARET THATCHER A PART OF HER CONTRIBUTION, FRANCE IS COMMITTING HERSELF TO DRAWING ON HER OWN RESOURCES AND GOING BACK ON CERTAIN PRINCIPLES WHICH IT HAD AFFIRMED SINCE 1981 ... THAT SAID, IN SUM, MARGARET THATCHER DOES NOT SEEM TO HAVE SHOWN AT FONTAINEBLEAU HER LEGENDARY FIRMNESS ... THE MECHANISM INSTALLED YESTERDAY IS TEMPORARY SINCE, FROM 1986, THE EEC WILL HAVE TO START WORK AGAIN ON INCREASING ITS OWN RESOURCES AND THE BRITISH CHEQUE WILL BE THE SUBJECT OF NEW NEGOTIATIONS". "THE FRENCH DELEGATION CAN BRANDISH ALL THE VICTORY DESPATCHES IT LIKES AT BOTTOM, THIS PSEUDO-AGREEMENT ONLY IMPRESSES THOSE WHO DO NOT WANT TO ADMIT THAT MRS THATCHER, BY HER OBSTINACY, HAS SINCE ATHENS OBLIGED HER EEC PARTNERS, AND FOREMOST AMONG THEM FRANCE, TO RECOGNISE THE ABERRANT WORKING OF THE COMMUNITY ... GREAT BRITAIN WANTS NO MORE OF THE EUROPE WHICH SPENDS 75 PERCENT OF ITS BUDGET IN SUPPORT OF AGRICULTURAL PRODUCTION AND SOME 8 MILLION FARMERS".

LES ECHOS (BUSINESS): HEADLINE

"THE IRON LADY FINISHED BY GIVING IN". "THIS FORMULATION (SC. OF NEITHER CONQUEROR NOR CONQUERED) CAN BE JUDGED BY COMPARING WHAT MRS THATCHER GOT WITH WHAT SHE WOULD HAVE RECEIVED IF SHE HAD ACCEPTED THE MORE GENEROUS OFFER AT BRUSSELS THREE MONTHS AGO ACCORDING TO THE FORMULA ADOPTED YESTERDAY (66 PERCENT OF 1681 MILLION) GREAT BRITAIN WOULD HAVE RECEIVED IN 1983 A CHEQUE FOR JUST OVER 1.109 MILLION. THE BRITISH NET CONTRIBUTION FOR 1984 AND FOLLOWING YEARS IS UNKNOWN, BUT ONE NOTES THAT THE TWO FORMULAS (SC. BRUSSELS AND FONTAINEBLEAU) GIVE ABOUT THE SAME REIMBURSEMENT (SOME 1.3 BILLION ECU) FOR A NET CONTRIBUTION OF 2 BILLION. ON THE OTHER HAND, THE BRUSSELS PROPOSAL WOULD HAVE GIVEN HIGHER CHEQUES IF THE CONTRIBUTION HAD EXCEEDED THIS THRESHOLD, COMPARED TO THOSE WHICH WILL BE PAID AS A RESULT OF THE FONTAINEBLEAU FORMULA A STEP HAS BEEN CROSSED. BUT DIFFICULTIES OF THE SAME

(2)

/KINE

KINE WILL ARISE WHEN IT WILL BE NECESSARY TO INCREASE ONCE AGAIN
THE COMMUNITY'S RESOURCES''.

- FRETWELL

E C BUDGET

LIMITED

ECD (I)

ECD (E)

PS

PS/LADY YOUNG

PS/MR RIFKIND

PS/PUB

SIR J BULLARD

MR RENWICK

SIR C TICKELL

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FM UKREP BRUSSELS 271715Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 2206 OF 27 JUNE

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS

BONN LUXEMBOURG ATHENS

INFO SAVING LISBON MADRID STRASBOURG.

COREPER (AMBASSADORS) : 27 JUNE.

FOLLOW-UP TO EUROPEAN COUNCIL.

ms

SUMMARY.

1. PRESIDENCY REFUSED TO MAKE ANY COMMENT ON PRESIDENCY CONCLUSIONS, EITHER ON CONTENT OR POSSIBLE DIFFERENCE OF STATUS BETWEEN TEXTS AGREED BY EUROPEAN COUNCIL AND THOSE DRAFTED AFTERWARDS : BUT MERELY LISTENED TO WHAT DELEGATIONS HAD TO SAY AND UNDERTOOK TO REPORT. U.K., DENMARK AND NETHERLANDS NOTED PROBLEMS WITH TEXTS PUBLISHED ON THE PRESIDENCY'S OWN AUTHORITY.

DETAIL.

2. AT THE REQUEST OF RUTTEN (NETHERLANDS) AND MYSELF, COREPER HAD A RESTRICTED DISCUSSION ABOUT THE PRESIDENCY CONCLUSIONS (PARIS TEL NO 799) WHICH DID NOT REACH BRUSSELS UNTIL 13.00 HOURS.

3. RUTTEN ASKED FOR A PRESIDENCY PLAN FOR THE DECISIONS NEEDED TO IMPLEMENT THE CONCLUSIONS, ESPECIALLY THE NEW OWN RESOURCES DECISION. HE ALSO POINTED OUT THAT SECTION 4 ON GERMAN MCAS OMITTED, AT THE END, WORDS WHICH HAD BEEN CRUCIAL TO LUBBERS' ACCEPTANCE OF THE TEXT : QUOTE THE EFFECTS OF UNQUOTE DISMANTLING.

4. I SAID THAT I DID NOT WANT TO DETRACT FROM THE SUCCESS OF AN EXCELLENT EUROPEAN COUNCIL. IT WOULD BE HELPFUL TO HAVE CONFIRMATION THAT THE TEXTS WERE IN FACT OF TWO DIFFERENT TYPES : 1, 2 AND 4, WHICH HAD BEEN DISCUSSED AND AGREED BY THE COUNCIL AND THE REST WHICH HAD BEEN DRAFTED AFTERWARDS BY THE PRESIDENCY ON THEIR OWN AUTHORITY, A PROPER BUT DIFFERENT PROCEDURE. EXPLAINING THAT I WAS SPEAKING FOR INFORMATION AND WITHOUT FORMAL INSTRUCTIONS

THEIR OWN AUTHORITY, A PROPER BUT DIFFERENT PROCEDURE. EXPLAINING THAT I WAS SPEAKING FOR INFORMATION AND WITHOUT FORMAL INSTRUCTIONS, I SAID THAT SOME POINTS DID NOT SEEM TO REFLECT THE ACCOUNT OF THE DISCUSSION I HAD HAD FROM YOU AND THE PRIME MINISTER :

(A) SECTION 3 - 1984 BUDGET OVER-RUN, WHERE MITTERRAND HAD AGREED THAT THERE SHOULD BE NO DECISIONS AT FONTAINEBLEAU BUT THAT THE MATTER SHOULD BE DEALT WITH BY THE BUDGET COUNCIL. THE TEXT, HOWEVER, WHICH HAD NOT BEEN APPROVED BY THE EUROPEAN COUNCIL, CONTAINED AN INCOMPLETE ORIENTATION AND DID NOT ACCORD WITH THE DISCUSSION.

(B) SECTION 5 - SOCIAL POLICY, THE WORDING ON THE ORGANISATION OF PRODUCTION.

(C) SECTION 6 - I DID NOT THINK THE EUROPEAN COUNCIL HAD ASKED THE COUNCIL TO TAKE ANY DECISIONS ON THE PASSPORT.

5. VIKAS (GREECE) SOUGHT CONFIRMATION THAT THE COVER PAGE IMPLIED ENDORSEMENT OF THE WHOLE BRUSSELS PACKAGE, INCLUDING THOSE PARTS RELEVANT TO THE GREEK MEMORANDUM IE. ON STRUCTURAL FUNDS. LEPRETTE NODDED ASSENT. RIBERHOLDT (DENMARK) ON A PERSONAL BASIS THAT PART OF THE TEXT ON QUOTE A PEOPLE'S EUROPE UNQUOTE (SECTION 6) WHICH WAS NEITHER SUBMITTED TO NOR APPROVED BY THE EUROPEAN COUNCIL WOULD CAUSE PROBLEMS FOR HIS GOVERNMENT. THE TEXT HAD TO BE SUBMITTED TO PARLIAMENT AND IT MIGHT NOT BE APPROVED.

6. POENSGEN (F R G) CIRCULATED A COPY OF A REQUEST TO THE SECRETARY-GENERAL FOR A WRITTEN PROCEDURE UNDER ARTICLE 93.2.3 FOR THE IMPLEMENTATION OF THE CONCLUSION ON MCA DISMANTLEMENT COMPENSATION. WHEN THE LAWYERS AMONG MY COLLEAGUES THREATENED TO GET INTO A LONG DISCUSSION, LEPRETTE CUT THEM SHORT.

7. AT VARIOUS POINTS IN THE DISCUSSION LEPRETTE TOOK THE LINE THAT COREPER WAS NOT COMPETENT TO RE-OPEN EUROPEAN COUNCIL CONCLUSIONS (WHICH NO ONE WAS ASKING FOR), ONLY HEADS OF GOVERNMENT COULD DO THAT. HE FIRST EVADED MY REPEATED REQUEST FOR CLARIFICATION ON THE DIFFERENT STATUS OF THE CONCLUSIONS APPROVED TEXTUALLY BY THE EUROPEAN COUNCIL AND OF THE OTHERS AND THEN FINALLY FLATLY REFUSED TO GIVE A VIEW. ALL HE WOULD UNDERTAKE TO DO WAS TO REPORT EVERYTHING WHICH HAD BEEN SAID SO THAT A REPLY COULD BE GIVEN IN DUE COURSE.

FCO ADVANCE TO:

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TSY - UNWIN

NO. 10 - POWELL

FCO PASS SAVING TO LISBON MADRID AND STRASBOURG.

BUTLER

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Prime Minister ①
 The Chancellor would like to know if you are content with this note, with the deletions in L J.

AT

27/2

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

27 June 1984

Charles Powell Esq
 10 Downing Street
 LONDON
 SW1

Yes not

Dear Charles

FONTAINEBLEAU AGREEMENT

As I agreed with Robin Butler earlier this afternoon, I am attaching a copy of a note on financial implications of the Fontainebleau agreement prepared by the Treasury today after discussion with the Chancellor. This was intended as a contribution to the note the FCO are producing for Government backbenchers, and also for use with the press.

Following my discussion with Robin, the passages marked with square brackets are not being used for the time being. The Chancellor thinks, however, that it would be very useful to put into circulation the figures given at the end of paragraph 3; and, indeed, that we will have to do so sooner or later.

You might like also to have the further table attached which give the best estimate we can make at present of what our net payments are likely to be up to 1987-88, compared to what they would have been had there been no agreement, and the 1 per cent VAT ceiling had continued.

Copies go also to Lord Appleby (FCO) and Stephen Lamport (FCO).

Yours ever
 David

D L C PERETZ
 Principal Private Secretary

FONTAINEBLEAU AGREEMENT: FINANCIAL YEAR COMPARISONS

		fm cash
	Net payments to Community institutions taking account of Fontainebleau agreement	Net payments to Community institutions if there had been <u>no</u> agreement
	(1)	(2)
1984-85	800	1325
1985-86	850	1725
1986-87	725	1550
1987-88	800	1625

Note: Column 1 assumes that the own resources VAT ceiling is raised to 1.4 per cent on 1.1.86 and that the UK receives budget refunds as agreed at Fontainebleau.

Column 2 assumes that the 1 per cent VAT ceiling continues, but that the UK receives no further budget refunds.

Financial implications

The terms of the agreement are as follows:-

- The UK will get a final ad hoc refund of £590 million in respect of 1984, to be paid in 1985. With effect from 1986 the UK will get a refund each year of 66% of that part of our budgetary burden in the previous year, measured by the difference between our percentage share in the Community's VAT own resources and our percentage share in expenditures from the "allocated" Community Budget. These refunds will be effected by an abatement of our VAT payments to the Budget.
- [- The effect is that on average over the period 1985-1988 we will receive a refund of about 60% of our total net contribution, when account is taken of our payments of customs duties and agricultural levies.]
- Measures to guarantee the effective application of budgetary discipline will be introduced. The objectives will be to diminish the share of agricultural expenditure in the budget and to set strict limits on the growth of both agricultural and non-agricultural expenditure.
- Subject to the agreement of Parliament the ceiling on the Community's VAT revenues will be increased from 1% to 1.4%. The system of budgetary refunds will be legally binding and incorporated in the new Own Resources decision, which cannot be changed without the UK's agreement. This ensures that the refunds will continue as long as the 1.4% VAT ceiling lasts.
- the agreement also refers to the possibility of a further increase in the VAT ceiling to 1.6%. Any such further increase could only take place with the agreement of the UK Government and the approval of the House of Commons.
- France and Italy have withdrawn their objections to payments of the UK's net rebate of £440 million in respect of 1983, which will be paid as soon as possible.

2. Financially this agreement is better than the arrangement on offer in March and

far better than the alternative of having no agreement at all. If no agreement had been reached the refunds due to HMG this year would have been lost. Moreover there would have been no agreement on refunds for any future years.

Without any increase in the 1% VAT ceiling, the UK's unadjusted net contribution would have *been more than twice as much as under this agreement.*

Under the new system we have negotiated our net contribution will be held to *around*
£800m a year.

4. The agreement has the following further important features:-

- the UK's VAT rate after the refunds now agreed will remain less than 1% for the foreseeable future, while all our partners pay more than 1%;

- at the margin the UK's net contribution to new Community expenditure will not exceed about 7% in contrast with our current maximum marginal contribution of about 21%;

[- initial estimates are that over the period 1984-88 the UK net contribution in cash terms will average around £800 million a year.

In 1978 and 1979 (the last two years of the Labour Government) our net contribution in 1983 prices averaged £1,425 million.]

- the new 1.4% VAT figure is a maximum, not an entitlement; it will not all be used up immediately. The purpose of the new arrangements on budgetary discipline is to ensure that the Community lives within the new ceiling for as long as possible.

- Germany will remain and France will become substantial net contributors.

[They will meet a major part of the refunds to the UK (about £140 million and £200 million respectively for 1984 alone).] As a consequence they too will have a strong interest in securing effective budgetary discipline.



FILE

Key

10 DOWNING STREET

From the Private Secretary

27 June, 1984

EUROPEAN COUNCIL, PRIME MINISTER'S STATEMENT
TO THE HOUSE

I enclose a further draft of the Prime Minister's Statement in the House of Commons today on the outcome of the European Council, amended to take account of the Prime Minister's preliminary comments.

(C.D. Powell)

R. Bone, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

PRIME MINISTER'S STATEMENT ON THE EUROPEAN COUNCIL,

FONTAINEBLEAU

WEDNESDAY 27 JUNE

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ABOUT
THE EUROPEAN COUNCIL IN FONTAINEBLEAU ON 25-26 JUNE, AT
WHICH I WAS ACCOMPANIED BY MY RT HON AND LEARNED FRIEND
THE FOREIGN AND COMMONWEALTH SECRETARY.

I AM GLAD TO TELL THE HOUSE THAT THE EUROPEAN COUNCIL REACHED
AGREEMENT ON A FAIRER AND MORE SOUNDLY BASED SYSTEM
FOR THE UNITED KINGDOM'S FINANCIAL CONTRIBUTION TO THE
COMMUNITY.

THIS IS A SUCCESSFUL CULMINATION OF OUR LONG AND
PERSISTENT EFFORTS TO CORRECT THE BUDGET INEQUITY AND
TO PUT THE UNITED KINGDOM'S REFUNDS ON A LASTING BASIS.

THE MAIN FEATURES OF THIS AGREEMENT ARE, FIRST, THAT IT PROVIDES
FOR A REFUND OF ^{about £600m} ~~£590~~ MILLION (1,000 MILLION ECU) IN 1984,
WITH THE NEW SYSTEM IN EFFECT THEREAFTER.

UNDER THE NEW SYSTEM THE UK WILL GET A REBATE OF 66%
OF THE GAP BETWEEN OUR SHARE OF VAT AND OUR SHARE OF
EXPENDITURE.

/THIS MEANS

THIS MEANS THAT, IN TERMS OF OUR MARGINAL NET CONTRIBUTION, THE UK WILL BE CONTRIBUTING NOT ABOUT 21% AS WE ARE LIABLE TO DO AT PRESENT BUT ABOUT 7% TO NEW COMMUNITY EXPENDITURE. THIS ARRANGEMENT IS FAR BETTER THAN ANYTHING PREVIOUSLY ON OFFER AND FAR BETTER THAN THE OFFER OF THE OTHER NINE MEMBER STATES AT THE LAST EUROPEAN COUNCIL.

SECONDLY, THIS SYSTEM CAN ONLY BE CHANGED BY A UNANIMOUS DECISION BY ALL MEMBER GOVERNMENTS AND RATIFIED BY THEIR PARLIAMENTS. THE BENEFITS FOR THE UK WILL CONTINUE UNLESS AND UNTIL WE OURSELVES AGREE TO CHANGE IT.

THIRDLY, THE ADVANTAGES OF THE SYSTEM WILL BE AVAILABLE TO US FROM 1985.

WE SHALL HAVE THE ARBITRARY REFUND OF ^{about £600-} £590 MILLION, FOR THE SINGLE YEAR 1984 ONLY.

THIS IS A SUBSTANTIALLY BETTER SITUATION FOR THE UK THAN WAS ON OFFER EARLIER.

/FOURTHLY,

FOURTHLY, THE REFUNDS WILL BE IMPLEMENTED, AS WE HAVE REQUESTED, BY REDUCING THE UK'S VAT PAYMENTS TO THE COMMUNITY IN EACH SUCCESSIVE YEAR.

THE HOUSE MAY RECALL THAT AT THE LAST EUROPEAN COUNCIL WE REACHED PROVISIONAL AGREEMENT THAT MEASURES BE TAKEN ON BUDGETARY DISCIPLINE.

WE CONSIDERED IT ESSENTIAL THAT THE RIGOROUS RULES WHICH AT PRESENT GOVERN BUDGETARY POLICY IN EACH MEMBER STATE ALSO APPLY TO THE BUDGET OF THE COMMUNITIES.

WE WENT ON TO ADD THAT THE COMMUNITY SHOULD FIX AT THE BEGINNING OF THE BUDGET PROCEDURE THE MAXIMUM LEVEL OF EXPENDITURE WHICH IT CONSIDERS IT MUST ADOPT TO FINANCE COMMUNITY POLICIES DURING THE FOLLOWING FINANCIAL YEAR; AND FURTHER THAT NET EXPENDITURE RELATING TO AGRICULTURAL MARKETS SHOULD INCREASE LESS THAN THE RATE OF GROWTH OF THE OWN RESOURCES BASE.

FINANCE MINISTERS ARE NOW WORKING ON THE PRECISE MEASURES TO GUARANTEE THE EFFECTIVE APPLICATION OF THESE PRINCIPLES.

IN THE LIGHT OF THE AGREEMENT REACHED BOTH ON THE UK REFUND AND THE FUTURE CONTROL OF COMMUNITY SPENDING, THE EUROPEAN COUNCIL ALSO AGREED THAT THE OWN RESOURCES CEILING SHOULD BE INCREASED TO 1.4% OF VAT. THE GOVERNMENT WILL BE PREPARED IN DUE COURSE, AND WHEN THE ARRANGEMENTS ARE IN PLACE ON BUDGET DISCIPLINE, TO RECOMMEND TO THE HOUSE THAT THE OWN RESOURCES CEILING SHOULD BE INCREASED TO 1.4% OF VAT.

HOWEVER, THE NET EFFECT OF SUCH AN INCREASE AND OF THE VAT REFUNDS FOR THE UK IS THAT, ALTHOUGH THE CEILING WILL BE INCREASED TO 1.4% FOR THE COMMUNITY AS A WHOLE THE UK WILL ITSELF BE CONTRIBUTING LESS THAN WE ARE AT PRESENT LIABLE TO CONTRIBUTE UNDER THE 1% LIMIT.

IT WAS FURTHER AGREED THAT THE REFUND OF £440 MILLION (750 MILLION ECU) DUE TO THE UK IN RESPECT OF 1983 SHOULD NOW BE RELEASED.

THE COUNCIL OF MINISTERS YESTERDAY APPROVED THE NECESSARY REGULATIONS.

IT IS NOW FOR THE EUROPEAN PARLIAMENT TO TRANSFER THE FUNDS FROM THE RESERVE CHAPTER OF THE BUDGET.

WE THUS HAVE THE ASSURANCE OF THE SUCCESSFUL IMPLEMENTATION OF OUR REFUNDS FOR 1983 (£442 MILLION) 1984 (£590 MILLION) AND FOR FUTURE YEARS, FOR AS LONG AS THE 1.4% VAT CEILING LASTS.

THE EUROPEAN COUNCIL DISCUSSED CURRENT WORLD POLITICAL AND ECONOMIC DEVELOPMENTS.

I DESCRIBED THE OUTCOME OF THE LONDON ECONOMIC SUMMIT. PRESIDENT MITTERRAND AND CHANCELLOR KOHL SPOKE ABOUT THEIR VISITS LAST WEEK TO THE SOVIET UNION AND HUNGARY.

IT WAS HEARTENING TO FIND THAT THE FOUR KEYNOTES OF THE LONDON SUMMIT - UNITY, RESOLVE, DIALOGUE AND CO-OPERATION - WERE UNANIMOUSLY ENDORSED AS THE BASIS FOR A SECURE AND CONSTRUCTIVE RELATIONSHIP WITH THE SOVIET UNION WHICH THE VISIT TO MOSCOW BY MY RT HON FRIEND THE FOREIGN AND COMMONWEALTH SECRETARY IN JULY IS DESIGNED TO PROMOTE.

THE EUROPEAN COUNCIL CONFIRMED THAT THE NEGOTIATIONS FOR THE
ACCESSION OF SPAIN AND PORTUGAL SHOULD BE COMPLETED
BY 30 SEPTEMBER 1984.

WE ALSO DISCUSSED THE NEGOTIATIONS FOR THE RENEWAL OF
THE LOME AGREEMENT WITH AFRICAN, CARIBBEAN AND PACIFIC
COUNTRIES.

THE EUROPEAN COUNCIL STRESSED THE IMPORTANCE OF BRINGING
THESE NEGOTIATIONS TO AN EARLY CONCLUSION.

THE EUROPEAN COUNCIL ALSO DISCUSSED THE FUTURE DEVELOPMENT OF THE
COMMUNITY.

WE HAVE PUT FORWARD SPECIFIC IDEAS IN A PAPER WHICH I GAVE
BEFORE THE EUROPEAN COUNCIL TO OTHER HEADS OF GOVERNMENT.
COPIES HAVE BEEN PLACED IN THE LIBRARY OF THE HOUSE.

I LAID PARTICULAR EMPHASIS ON THE IMPORTANCE OF ACHIEVING
A GENUINE COMMON MARKET IN GOODS AND SERVICES LEADING TO
THE CREATION OF NEW JOBS THROUGHOUT THE COMMUNITY.

/THE OUTCOME

THE OUTCOME OF THE COUNCIL IS GOOD FOR BRITAIN AND GOOD FOR THE
COMMUNITY.

IT WILL RESULT IN BRITAIN'S PAYING FOR THE FORESEEABLE
FUTURE LOWER CONTRIBUTIONS THAN WOULD HAVE BEEN DUE UNDER
EXISTING ARRANGEMENTS WITH THE 1% VAT CEILING; IT WILL
MAKE POSSIBLE A RELAUNCHING OF THE COMMUNITY IN WHICH
BRITAIN WILL PLAY A FULL ROLE; WILL GIVE AN IMPETUS TO
ENLARGEMENT THUS STRENGTHENING DEMOCRACY IN SPAIN AND
PORTUGAL; AND REMOVE WHAT HAS BEEN A CONSTANT SOURCE OF
FRICTION IN OUR RELATIONS WITH THE COMMUNITY EVER SINCE
WE JOINED.

DRAFT STATEMENT TO THE HOUSE ON 27 JUNE

With permission, Mr. Speaker, I ^{should like to} ~~shall~~ make a statement about the European Council in Fontainebleau on 25-26 June, at which I was accompanied by my Rt Hon and Learned Friend the Foreign and Commonwealth Secretary.

I am glad to tell the House that the European Council reached agreement on a fairer and more soundly based system for the United Kingdom's financial contribution to the Community. This is a successful culmination of our long and persistent efforts to correct the budget inequity and to put the United Kingdom's refunds on a lasting basis.

The main features of this agreement are, first, that it provides for a refund of £590 million (1,000 million ecu) in 1984, with the new system in effect thereafter. Under the new system the UK will get a rebate of 66% of the gap between our share of VAT and our share of expenditure. / This means that, in terms of our marginal net contribution, the UK will be contributing not about 21% as we are liable to do at present but about 7% to new Community expenditure. This arrangement is far better than anything previously on offer and far better than the offer of the other Nine Member States at the last European Council.

Secondly, this system can only be changed by a unanimous decision by all member governments and ratified by their Parliaments. The benefits for the UK will continue unless and until we ourselves agree to change it.

Thirdly, the advantages of the system will be available to us from 1985. We shall have ^{an} ~~an arbitrary~~ ^{fixed} refund for the single year 1984 only. This is a substantially better situation for the UK than was on offer earlier.

Fourthly, the refunds will be implemented, as we have requested, by reducing the UK's VAT payments to the Community in each successive year.

The House may recall that at the last European Council we reached a provisional agreement under which measures will be taken to guarantee the ^{on budgetary discipline} effective application of budgetary discipline. Finance Ministers are now working on the method by which this will be incorporated in the Community's budgetary procedures.

In the light of the agreement reached both on the UK refund and the future control of Community spending, the European Council also agreed that the own resources ceiling should be increased to 1.4% of VAT ~~(with the possibility of a further increase to 1.6% later.)~~ The Government will be prepared in due course, and when ^{the} adequate arrangements are in place ^{on} to guarantee budget discipline, to recommend to the House that the own resources ceiling should be increased to 1.4% of VAT. However, the net effect of such an increase and of the VAT refunds for the UK is that, although the ceiling will be increased to 1.4% for the Community as a whole, the UK will itself be contributing less ^{we are at present} than 1% of VAT. *(able to contribute with the 7% limit)*

It was further agreed that the refund of £442 million (750 million ecu) due to the UK in respect of 1983 should now be released. The Council of Ministers yesterday approved the necessary regulations. It is now for the European Parliament to transfer the funds from the reserve chapter of the budget. We thus have the assurance of the successful implementation of our refunds for 1983 (£442 million) 1984 (£590 million) and for future years, for as long as the 1.4% VAT ceiling lasts.

The European Council discussed current world political and economic developments. I described the outcome of the London Economic Summit. President Mitterrand and Chancellor Kohl spoke about their visits last week to the Soviet Union and Hungary. It was heartening to find that the four keynotes of the London Summit - unity, resolve, dialogue and cooperation - were unanimously endorsed as the basis for a secure and constructive relationship with the Soviet Union which the visit to Moscow by my Rt. Hon Friend the Foreign and Commonwealth Secretary ^{is} designed to promote.

The European Council confirmed that the negotiations for the accession of Spain and Portugal should be completed by 30 September 1984. We also discussed the negotiations for the renewal of the Lome Agreement with African, Caribbean and Pacific countries. The European Council stressed the importance of bringing these negotiations to an early conclusion.

The European Council also discussed the future development of the Community. We have put forward specific ideas in a paper which I gave before the European Council to other Heads of Government. Copies have been placed in the Library of the House. I laid particular emphasis on the importance of achieving a genuine common market in goods and services leading to the creation of new jobs throughout the Community.

The outcome of the Council is good for Britain and good for the Community. It will result in Britain's paying for the foreseeable future lower contributions than would have been due under existing arrangements with the 1% VAT ceiling; it will make possible a relaunching of the Community in which Britain will play a full role; will give an impetus to enlargement thus strengthening democracy

E. R.

in Spain and Portugal; and remove what has been a constant source of friction in our relations with the Community ever since we joined.

BUDGETARY IMBALANCES

1. Control of expenditure is ultimately the essential means of resolving the question of budgetary imbalances.

However, it has been decided 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 basis for the correction is the gap between the share of VAT payments and the share of expenditure allocated in accordance with the present criteria.

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

2. As far as the United Kingdom is concerned, the following arrangement is adopted:

- for 1984, a lump sum of 1000 MECUS is fixed;
- from 1985 the gap (base of the correction) as defined in § 1 is, for the period referred to in § 6, corrected annually at 65%.

3. In the case of new Member States benefitting during the period of transition from a reduction of own resources, the resulting cost for other Member States will be met out of VAT in the normal way.

4. The corrections foreseen in § 2 will be deducted from the United Kingdom's normal VAT share in the budget year following the one in respect of which the correction is granted.

The resulting cost for the other Member States will be shared among them according to their normal VAT share, adjusted to allow the FRG's share to move to 2/3 of its VAT share.

5. The correction formula foreseen in § 2 (2nd indent) will be a part of the decision on the new own resources, their durations being linked.

One year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

- the result of the budgetary discipline
- the Community's financial needs
- the breakdown of the budgetary costs among Member States, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will take the appropriate decisions.

ADVANCE COPY

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SIR C TICKELL
MR ~~RENNICK~~
RESIDENT CLERK

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H M TREASURY
CABINET OFFICE
CAS OFF

Mr Turnbull

~~Box 24; No. 10. 9/11~~



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To see.

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EUROPEAN COUNCIL FONTAINEBLEAU, 25 - 26 JUNE
SECOND SESSION: BUDGETARY IMBALANCES

SUMMARY

1. AGREEMENT AFTER 5 HOURS DISCUSSION ON SOLUTION PROVIDING FOR LUMP-SUM PAYMENT TO UK OF 1,000 MECU NET IN 1984 AND UK THEREAFTER BEING RELIEVED OF 66 PERCENT OF VAT (PAYMENTS) SHARE/EXPENDITURE SHARE GAP FOR AS LONG AS DECISION ON INCREASE IN OWN RESOURCES CEILING TO 1.4 PERCENT VAT LASTS. GERMANS TO PAY TWO THIRDS OF THEIR SHARE OF ADDITIONAL BURDEN FOR OTHER MEMBER STATES.

DETAIL

2. DISCUSSION OPENED WITH CHEYSSON REPORTING THAT AFTER THE FOREIGN MINISTERS' DISCUSSION THE PREVIOUS NIGHT, THREE ISSUES REMAIN TO BE RESOLVED:

- A) WHETHER OR NOT THERE SHOULD BE 2 AD HOC YEARS,
- B) WHETHER TO COMPENSATE A PERCENTAGE OF THE WHOLE VAT EXPENDITURE GAP OR A PART ADDED TO A FIXED SUM, AND
- C) THE PERCENTAGE, WHERE THE UK WANTED MORE THAN 70 PERCENT AND THE REST COULD NOT GO ABOVE 60 PERCENT.

WITH SOME HELP FROM GENSCHER AND LUBBERS, THE PRIME MINISTER ARGUED FOR ONE AD HOC YEAR. SHE SUCCESSFULLY REJECTED LUBBERS' SUGGESTION THAT THE SOLUTION BE LIMITED IN TIME. DISCUSSION THEN CONCENTRATED ON THE PERCENTAGE, WITH MITTERRAND ARGUING THAT THERE SHOULD BE A TRADE-OFF BETWEEN THE PERCENTAGE AND THE SECOND AD HOC YEAR.

3. AT 11.15 MITTERRAND INTERRUPTED THE SESSION FOR BILATERAL CONSULTATIONS. IN A FIRST MEETING BETWEEN MITTERRAND, DUMAS, THE PRIME MINISTER AND YOURSELF, MITTERRAND WOULD NOT BE DRAWN BEYOND 60 PERCENT OF THE GAP. YOU AND THE PRIME MINISTER THEN SAW KOHL AND GENSCHER. KOHL INDICATED THAT 65 PERCENT WAS HIS LIMIT

THE PRIME MINISTER AND YOURSELF, MITTERRAND WOULD NOT BE DRAWN BEYOND 60 PERCENT OF THE GAP. YOU AND THE PRIME MINISTER THEN SAW KOHL AND GENSCHER. KOHL INDICATED THAT 65 PERCENT WAS HIS LIMIT. DUMAS MADE IT CLEAR TO YOU THAT MITTERRAND WOULD NOT GO UP TO THE 70 PERCENT THE PRIME MINISTER WAS SEEKING. IN THE CIRCUMSTANCES THE PRIME MINISTER DECIDED TO INFORM THE PRESIDENCY THAT IF THEY PROPOSED TWO-THIRDS SHE WOULD ACCEPT THAT.

4. THE GERMANS HOWEVER MAINTAINED THEIR FIGURE OF 65 PERCENT, AND THAT WAS THE FIGURE IN THE TEXT WHICH THE PRESIDENCY CIRCULATED AFTER THE SESSION RESUMED AT 1235. DISCUSSION WAS INTERRUPTED BY A LONG ARGUMENT OVER COMPENSATION FOR GERMAN FARMERS (ON WHICH GERMAN DEMANDS WERE MET).

5. THE PRIME MINISTER SUCCEEDED IN ESTABLISHING 66 PERCENT AS THE PERCENTAGE INSTEAD OF 65 PERCENT. THE TEXT AS FINALLY AGREED AT 1500 (WHEN THE COUNCIL BROKE FOR LUNCH) IS IN MIFT.

6. THE PRIME MINISTER ELIMINATED PROPOSALS WHICH WOULD HAVE HAD THE EFFECT OF MAKING THE UK CONTRIBUTE TO THE GERMAN REFUND OR TO TRANSITIONAL 'OWN RESOURCES' RELIEF FOR SPAIN AND PORTUGAL AT OUR FULL RATE.

7. THE KEY ESSENTIALS OF THE BRUSSELS EUROPEAN COUNCIL DRAFT TEXT WERE MAINTAINED.

8. FCO PLEASE ADVANCE:

FCO: PS PS/MR RIFKIND PS/PUS TICKELL RENWICK WALL

CAB: WILLIAMSON STAPLETON DURIE

TSY: PS/CHANCELLOR UNWIN FITCHEW PEET

NO 10: POWELL

HOWE

NNNN



Prime Minister

YOUR PRESS CONFERENCE

1. We have our own briefing room in the Press Centre which is about half a mile away from the Chateau. It is in the form of a tiered lecture room with you addressing the audience from the well.
2. There is a COI mike system for the briefer, but not for the media.
3. You will be accompanied by the Foreign Secretary and Sir Michael Butler. I will preside and select the questions. I intend to conclude the press conference after thirty minutes.
4. There are no facilities for Radio and TV. I have, however, arranged for you to give the usual four Radio and TV interviews on the lawn immediately outside the lecture room in a corner formed by 2 brick and glass walls. We shall try to confine attendance to Radio and TV crews.
5. Are you content to give these interviews on the lawn?

Presentation

6. The media's main aim will be to pick holes in a "successful" outcome - to underline how far short it falls from the optimum which is perceived to be a continuation of the past formula: ie, no less than two-thirds of our unadjusted net contribution. They will press you to justify any shortfall from two-thirds. And they will want to know what, if anything, you have gained since Brussels - ie their aim will be to show you have lost rather than gained from holding out.



7. In addition, they will inevitably raise questions about whether you will be able to sell a settlement to your Back-benchers, especially the increase in own resources. I attach at Annex B a separate short speaking note on this. I set out below in shorthand form the sorts of questions which are likely to arise. We need to consider these questions at a briefing in your room at the Chateau before you go to the Press Centre.

Questions arising:

- What will Britain's net contribution be in the late 1980s and especially in 1987/88 before an election?
- Why have you agreed to what can't really be described any more as a "modest net contribution".
- What gains have you made since Brussels in March?
- What has happened to the 1982 risk-sharing debt?
- What guarantee have you against the squandering of increased own resources and that you are protected from the effects of this squandering?

Media and Tone

8. You must present a successful outcome as a success and not grudgingly. This does not mean going overboard in triumph. But it does mean saying as a minimum: that your two conditions have been met and that it was right to strike a reasonable deal. You should not give the many critics queuing up any encouragement.

9. I attach a draft opening statement for your press conference at Annex A.

Bernard Ingham

QUESTION

No case for increase in Own Resources?

- Said I would consider O/R increase if two conditions met. Outline agreement now reached on both.
- But nothing finalised. Package won't be accepted by me and put to Parliament until detailed texts agreed on budget discipline and imbalances.
- Could not expect to get refunds, budget discipline, system, etc without agreeing on O/R: a basic point of negotiation.
- In any case, extra O/R needed for new policies/enlargement/structural funds/UK refunds.
- .4% VAT means only 24% increase in O/R. UK won't have to pay 1.4% VAT in foreseeable future because of revenue side refunding.

BUDGET IMBALANCES

You will recall that at the Brussels European Council we had a long discussion of the need for a system which would ensure that Britain in future was bearing a fairer share of the budgetary burden; and that we did not have to negotiate each year for ad hoc refunds to correct that burden.

The achievement of a systematic correction of our budgetary contribution and of a fairer sharing of the burden between all Member States has been a prime objective of the British Government since we first took office. It has required more than a year of negotiation to get to the point now reached.

You will recall that at the Brussels European Council we were offered a flat rate refund at 1000 mecus for five years, with the operation of a system based on a 1000 mecu notional figure thereafter.

I rejected that proposal because it would have left Britain exposed to a much greater budgetary burden as our contribution increased over the years. I insisted that the system must come into operation to correct the payments we shall be making to the Community from next year - 1985 - and that the correction must increase as our contribution grows.

At the outset of this European Council I was offered a further flat rate refund of 1080 mecu in 1985 with the system to operate on the basis of an inadequate compensation for the increase in our budgetary contribution thereafter. I rejected that proposal.

After long discussions last night and again this morning the French Presidency put forward a proposal for a systematic correction of our budgetary burden on a basis which would ensure

/ that we received

that we received back two-thirds of the contribution we make on the basis of the difference between the VAT share of payments we make to the Community and the receipts we receive. This will come into operation from 1985.

This correction will increase proportionately with any increase in our contribution and is worth far more than the offer made at the Brussels European Council. The correction is on a basis which preserves all the elements agreed in previous negotiation which we regard as essential. These are

- (i) that the correction should be embodied in the own resources decision;
- (ii) that it should last as long as the increase in own resources we have agreed;
- (iii) that the correction should be related to our relative prosperity and ensure a fairer sharing of the financial burden and
- (iv) that the correction should operate on the revenue side.


On the basis of this agreement, and subject to satisfactory completion by Finance Ministers of the agreement on effective budgetary discipline, we shall agree that the own resources ceiling may be increased progressively from 1% to 1.4% of VAT. There can be no further increase beyond that without our agreement. We have therefore succeeded in securing at last after years of very difficult negotiation a systematic correction of our budgetary contribution. This will secure also the release of the 750 mecus of refunds we are due from 1983 and in due course the payment of the 1000 mecus refunds which have been agreed for 1984.

This outcome is good for Britain and good for the Community. It will enable the enlargement negotiations to be completed, helping to strengthen democracy in Spain and Portugal; and remove what has been a constant source of

(205)

friction in Britain's relations with the Community ever since we joined it. It has never before been possible to achieve a budgetary system which provided for an automatic correction of this type and that is a great prize for us all.

[As necessary: Those who say that we should agree to no increase in the VAT ceiling should do their sums. With the increase still in place our contribution would continue at about 2 billion ecus ie at least £1200 millions per annum. We should have been obliged to continue arguing each year for ad hoc refunds which were increasingly difficult to get agreed at a satisfactory rate: and the results would have been much less satisfactory than the agreement now reached, which furthermore provides for a systematic correction of our contribution applied automatically each year].



ESSENTIAL POINTS FROM THE PRIME MINISTER'S STATEMENT ON 21 MARCH

I made clear at the meeting in Stuttgart last year that the UK would be prepared to consider an increase in the Community's financial resources but only on condition that there was effective control of agricultural and other spending and that there was a fair sharing of the budget burden ...

We made progress towards securing control of spending by first an annual limit of overall expenditure and second a strict financial guideline on agricultural expenditure. The French Presidency also proposed a lasting system for a fair sharing of the budget burden. We would have been able to accept this system but some other Member States, despite the long discussions over the last 9 months, were still unable to do so. Nor were we able to reach agreement on the level of the UK's net contribution which would result from the application of the system ...

At the end of the discussion the proposition which the UK was invited to accept was first that instead of a lasting equitable system for Community financing, there should be a five year ad hoc arrangement which would have left us receiving less than the average refund which we received in the years 1980 - 83; second, that we should endorse the unsatisfactory and discriminatory arrangements for milk; third that we should accept an increase in the Community's VAT resources of 1.4% in 1986, having the prospect of a possible further increase two years later to 1.6%.

I made it plain that neither the Government nor the British Parliament could accept such a package. Therefore I did not agree to any increase in the Community's resources. The 1% VAT ceiling remains.

[On budgetary discipline - in answer to a question from Mr Kinnock]

..... we want strict financial restraints on the total European budget and in particular on the agricultural budget; this should be embodied in the budgetary procedure so that they can bite. Therefore we made it clear that if there were strict financial constraints plus a fairer sharing of the burden we would consider an increase in own resources. As the Rt Hon Gent will be aware such an increase in own resources has to be ratified by each and every Parliament in the Community.

[In reply to a question from Mr Douglas]

The Hon Gent will remember that we have had refunds for 4 years which have averaged 1100 mecu a year. That has meant that the refund - in Community jargon - has been about two-thirds of our net contribution, leaving us with only one-third to pay. That was a reasonable deal, but it was only an ad hoc arrangement. The Community will not extend it since, if we obtain agreement, we are going into a period of increase in own resources, it is vital that we should obtain a fair distribution of the burden

FOR USE AS NECESSARY

THE VAT SHARE, EXPENDITURE SHARE GAP

Does this mean that you have agreed that the levies and duties we pay on imports from outside the Community should not be counted against our budget correction?

Not at all. Other Member States have strongly held positions on that score. But the basis of correction which has been agreed covers the great bulk of our payments to the Community since what this definition 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.



Each country makes its best contribution to the Community when it's true to its own style and tradition. That is how we harness the diversity and vitality of the Community's ten members. Britain's style is pragmatic; our tradition is gradualistic. But that does not mean that we are less enthusiastic than our partners about the Community's next phase - enlargement, the completion of the Common Market and the relaunch of new policies.

Britain has played a key role in ~~the~~ building ^{the} of great organizations of the West - the Alliance, the World Bank, OECD, etc. We want to do the same for the Community; because many of our vital interests are now focussed there. That's the thinking behind the paper I have given my colleagues on "Europe, the Future". It is also the reason why we have insisted, often in isolation, on a durable, financial foundation for the Community. You can't credibly aim for one without the other.

Either:

Now we have the basis of a sound financial system, we can concentrate our energies increasingly on the exciting new prospects in front of the Community.

OR:

That remains the position. Despite the setbacks at the last three Councils, the Community will eventually agree on a sound, fair and lasting financial system. That must remain its first priority, however tempting it may be to talk instead about utopian future products.

Prime Minister

CONFIDENTIAL

Qz.03787

NOTE FOR THE RECORD

A bit more optimistic:
but I doubt that the
French have settled
their final position
yet.

CDP 22/6

EUROPEAN COUNCIL: PREPARATION FOR THE EUROPEAN COUNCIL

Monsieur Davignon spoke to me this morning on the telephone. He said that his information was that the preparation of the French Presidency's position on budget imbalances was now in the final stages in Paris. He believed that they would be ready to propose:

- one ad hoc year;
- system thereafter with a single rate of compensation (no threshold);
- no rate of compensation for the Germans but an abatement for the Germans of their normal rate of contribution to the British refund.

He said that his own enquiries indicated that the Italians, Belgians, Danes and Irish would all go along with this.

Df Williamson

D F WILLIAMSON

Cabinet Office

22 June 1984

cc: Mr Powell, No 10 Downing St

Mr Bone)
Sir Crispin Tickell) FCO
Mr Renwick)

Mr Unwin, Treasury

Sir Michael Butler, UKREP, Brussels

Mr Stapleton
Mr Durie

CONFIDENTIAL

Thru.

Ad hoc 1 or 2 years,
- -

Forwards VAT / Expenditure
payments.

In lots - in increments each
year.

2 of definite or 2 ~~date~~
definitive.

60% - 2 for resale
on definite

Initial definite

Para 10 - Income
subsidy

Understanding, 43%
less than
20 yrs.

Research $\frac{2}{7}$ corrected

Smaller entire

End of 1988
4 years
3% no deaths

Research
MCA's

1983 - 750m
€m

Research only MC 300

Have to rethink with psychological research MC

5 years

MC

1 or

MC

① Not willing to go
further than

60%

② Case history,

High percentage
of demand

Requirements

③

Example for
1992

1-Ed. Research
Smaller → Difficult
to work



SPEAKING NOTE FOR THE PRIME MINISTER

WHY WE CANNOT HAVE A SECOND AD HOC YEAR

We must respect the logic of our own discussions here. The new own resources will be available at least from the beginning of January 1986. The 1985 refund will be made in 1986. It can therefore be financed from the new own resources. I could not justify an arrangement under which the new own resources decision made new own resources available but the United Kingdom were still required to have an ad hoc refund. For this reason I am ready to agree in 1984 to one ad hoc year/but I see no reason why we should have a second ad hoc year and I cannot accept it.

[If it is suggested that the new own resources should come into effect in October 1985 rather than January 1986]

This is not a problem for me. I want the arrangements for the budget correction to come into effect as quickly as possible. If I am satisfied on that, I have already said that I would be prepared to agree to the increase in own resources which we discussed at our last meeting.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER ON BUDGET
IMBALANCES

1. The UK hopes that this European Council will mark a turning point in the Community. If we can fulfill the tasks we set ourselves at Stuttgart we shall have achieved the sound basis on which the relaunch of the Community can take place. We have practical, but far reaching ideas for the future development of the Community, set out in our paper which I circulated to Heads of Government two weeks ago. But for any discussion of the future of Europe to have any immediate relevance we need first to complete the negotiations. That means settling the one issue that stands in the way of overall agreement, namely budget imbalances. Want you to be in no doubt of the UK's desire to settle this issue. We want to put behind us the repeated negotiations on this subject, to settle it once and for all and to get on with realising the goals we all share for Europe's future.

2. For this reason we want to make a real effort to clinch a settlement on the budget. The basis of such an agreement must be the position we reached in March after months of negotiation. In other words, one more year of ad hoc refunds in 1984 with the budget system starting in 1985. The budget system designed by the French Presidency and incorporated in the draft conclusions of the Brussels European Council endorsed the vital principle that contributions must be based on ability to pay measured by objective criteria. Issue now is how to move forward from position reached in March.

3. The simplest way to resolve the outstanding issue is to set the notional figure for 1983 which will determine how the system works from 1985 onwards. Our partners have offered 1000 mecu. We said at Brussels that we could accept 1250 mecu. An effort will be required by both sides to settle the matter; and that effort will be more costly for the UK than the Nine.

4. Our unadjusted net contribution is already 2 billion ecu a year. With an increase in own resources it would not be long before it reached 3 billion ecu. Even under the proposed system we shall still be contributing very large amounts to the Community and to the costs of enlargement.

5. We stand by our acceptance of the text tabled by the Presidency at the European Council subject to agreement on the notional figure. As I have already said, we are ready to join with others in making a real effort to resolve the remaining difference on the notional figure. This must involve movement in both directions. We can settle this on the basis of a fair compromise between 1000 and 1250 million ecu. Would remind colleagues that Britain will have to bear the total cost of such a move whereas the cost to other Member States of an equivalent move will be divided among nine. Are other Member States ready to settle this on the lines I have suggested?

BACKGROUND : NOT FOR USE

1. We should continue to point out that there is no case for a further ad hoc year in 1985 because the new own resources decision will come into effect, at the latest, on 1 January 1986. Since our budgetary correction for 1985 would operate in 1986, there is no logical case for ad hoc arrangements in 1985.
2. We shall not, however, be able to secure payment of the 1,000 mecu refunds due for 1984 in 1985 unless new own resources are brought forward by three months or other financial arrangements (which would be more undesirable) are made. This is because it was agreed at the Brussels European Council that the 1,000 mecu should not add to Community expenditure ie the correction should be made on the revenue side (and the Community has no money to pay them otherwise).
3. Although there is no direct logical link (see paragraph 1 above), other Member States are likely to continue to try to insist on further ad hoc arrangements in 1985 because they believe that correction for us under the system would be very expensive in respect of that year. They will not be able to sustain this argument if new own resources are brought forward to 1 October 1985. If not, there will be continuing strong pressure for a second ad hoc year. Other Member States are likely to agree to bring own resources forward. The Germans may resist, but are thought unlikely to oppose this on their own if overall agreement depends on this point.
4. The idea of bringing new own resources forward is also relevant to our position on the 1984 overrun which is that savings should be made and, as necessary, payments deferred into 1985.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER ON
STRAIGHTFORWARD PERCENTAGE RETURN

1. In March we got close to agreement on a system tabled by the French Presidency. That text was the outcome of months of negotiation and we should be very hesitant about moving away from what was provisionally agreed. It can be in nobody's interest to reopen the negotiation on issues where outline agreement had been reached since this risks reopening wider issues affecting the whole negotiation.
2. The whole basis of this negotiation, from Stuttgart onwards, has been to achieve a budget system which would form part of the own resources decision of the Community. The Presidency text proposed just such a system which was carefully balanced to provide a reasonable degree of protection against an increase in the budget burden on a Member State which qualified. It is not clear how those essential elements of the system would be maintained under what is now suggested.
3. The Presidency proposal offers us only [65%] of the VAT share/expenditure share gap. That would leave us bearing a very large proportion of the burden represented by that gap, not to mention the real burden which is bigger still.
4. The 65% return on the VAT share/expenditure share gap represents 1054 mecus on 1983 figures. ^{This is too low.} ~~In other words it would produce a less equitable result for the UK than could be achieved by meeting each other half way under the system.~~ Compared with the system, the percentage return, at the level proposed would expose the United Kingdom to much greater increases in our budget burden as our VAT share/expenditure share gap rises. Whatever happens we should still be getting only a 65% return on the VAT share/expenditure share gap.

5. For this reason, and for the wider reasons I have already mentioned, we should think very carefully before moving away from the system to try to reach a settlement on a percentage figure as suggested. For the UK to accept a percentage return at all would involve a substantial degree of economic risk. We would need to look at a significantly higher figure before we could consider this approach. We must achieve results which, in the long run, would provide the United Kingdom with results as satisfactory as meeting us half way under the system.

EUROPEAN COUNCIL: FURTHER SPEAKING NOTE ON STRAIGHT PERCENTAGE OF
VAT SHARE/EXPENDITURE SHARE GAP IF DETAILED DISCUSSION IS ENGAGED

1. As I indicated earlier, by whatever route a settlement is reached we must achieve a systematic and lasting approach reflecting the fact that this is a Community problem. The principles enshrined in the March Presidency text on duration and on incorporation of the corrective mechanism in the revised own resources decision must be maintained. It would be important too to ensure that, as has always been recognised, the corrective mechanism should be linked to relative prosperity. Officials should be asked to work on a text showing how this could be achieved. [One way would be to express the link between relative prosperity and the rate of compensation in such a way that countries of below 90% of average prosperity in the enlarged Community would not be expected to have a negative VAT share/expenditure share gap at all, while countries between 90% and 115% of relative prosperity would qualify for a percentage return on the VAT share/expenditure share gap.]

There are
other
ways.
Chancellor's
advice is
better
not identify
only one.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER
ON 1984 BUDGET OVERRUN

1. The UK is a bit surprised at this being raised in a substantive way today. Foreign Affairs Council discussed the issue last week and agreed that the question should be considered at the Budget Council on 19 July. It is very difficult for us to deal with the issue here without proper preparation. It is clear from the discussion that has already taken place that a lot more work needs to be done in searching for all available savings. Depending on the state of that work, and provided that we can reach satisfactory resolution of the wider negotiations here at Fontainebleau then we shall be prepared, on 19 July, to join in looking for ways of dealing with the problem.

2. [If pressed to accept that 1984 overrun should be financed by "advances" in accordance with VAT shares]: I understand that several Member States, like us, are opposed to the Commission's loan proposal. This proposal for advances does not seem very different. It is another way round the 1% ceiling. Our view remains that we should make substantial savings. The European


/Court

Court of Auditors has drawn attention to the fact that the Commission have not exhausted all the possibilities. At the same time, the Agriculture Council has not yet considered separate proposals put forward by ourselves and the Netherlands for savings. If, thereafter, it is clear that we cannot solve the whole problem by savings then we shall need to see how much expenditure could be deferred in 1985, bearing in mind that 675 mecu of expenditure was deferred last year.

[If others argue that deferral into 1985 will make it impossible to keep the budget within the 1% ceiling and will therefore require either supplementary financing or the early introduction of a revised own resources ceiling]

The British Government's position has always been that the Community budget must be financed within the ceiling of available own resources. If some expenditure is deferred into 1985 it will still be possible to keep the budget within the 1% ceiling. The main problem will arise in autumn when the principal burden of agricultural expenditure is felt. [In our view, therefore, the best solution in those circumstances would be to bring the new own resources

Chancellor's
advice is
not to give
it away, at any rate
in this context alone.
Different if there is a settlement
of our budget problem.

/decision

decision into effect from 1 October 1985, so that the
UK's 1984 refund could be financed by a reduction of
VAT in 1985 and so that any 1984 overrun deferred into
1985 could also be covered.]

WHY 70%?

SPEAKING NOTE

WHY AT LEAST 70%

We had provisional agreement in March that there should be a system with a threshold and a rate of compensation beyond the threshold. If we reached a compromise on 1125 mecus on the basis of the 1983 figures and a threshold of 250 mecus, we should have a compensation rate of about 80%. For us to drop the idea of a threshold is therefore an important concession. It means that we shall have less protection if our gap increases, as it will. So I could not agree to a solution based on a straight percentage refund unless the percentage is over 70%.

System -

FF

1984 = 1000 =

Now - 1984
not needed.

FF } of System,
86 } more 65%
87 } than

Up to early 1987

1984

1 or 2 years

1984 1000

1985

86-87
65%
Concept

50%

Threshold

60%
2/3

65%
= 50%

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

I. WHAT A STRAIGHT PERCENTAGE REFUND MEANS?

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70	62
68	60
66.66	59

~~1200~~
~~_____~~
Return

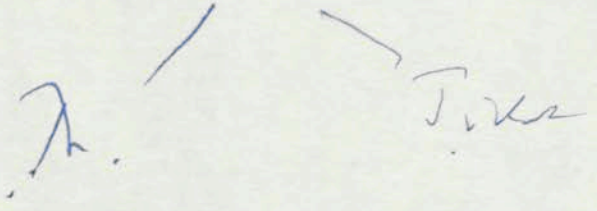
2000

~~1600~~
~~_____~~
not run



300
←

700

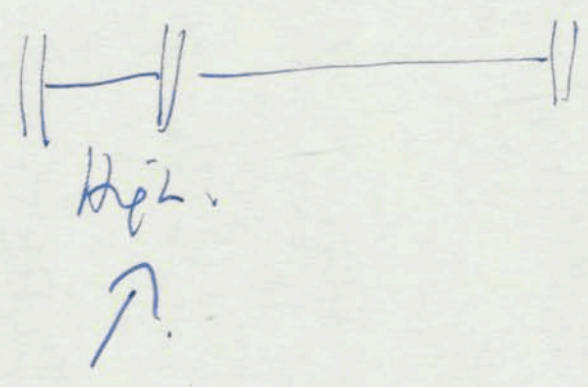


200?
~~_____~~

~~200~~ / 6 = 200 / 1200
142

Pay - whole
low

125²⁰⁰
125
① Threshold 15M.
② 2.



II. THRESHOLD/PERCENTAGE REFUND ABOVE THE THRESHOLD OR
STRAIGHT PERCENTAGE REFUND: TWO POINTS TO NOTE

- (a) The advantage of the threshold/percentage refund above the threshold is that it may allow us to get a higher rate of compensation (lower rate of contribution) at the margin. For example, a settlement at 1125 mecu on 1983 figures could be implemented through a threshold of about 200 mecu (0.04% of gdp) and a compensation rate above the threshold of almost 80%, ie we would pay about just under 20% of our normal contribution which means 4% of increases in Community expenditure. But beware! The threshold itself (although it might help with the German problem) is not an advantage for Britain: it is Eurojargon for an increasing amount of money which we pay to the Community without any compensation at all. If we can lose the threshold and still get a reasonably low marginal rate of contribution, that would be best of all.
- (b) the advantage of the straight percentage refund is just that it loses the threshold. The key issue is whether we can get an acceptable figure. If we get a 70% refund, this means that we would be contributing about 6% of increasing Community expenditure.

The Treasury's estimates show that in real money for Britain between now and 1988 a straight percentage refund of 70% is better than 1100 million ecu with a threshold of 0.04% of gdp.

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

	<u>Refund at 65%</u>	<u>% of net contribution</u>	<u>Refund at 66%</u>	<u>% of net contribution</u>	<u>Refund at 66²/₃%</u>	<u>% of net contribution</u>
1983	1054		1071		1081	
1985	1783		1810		1829	
1986	1557		1581		1597	
1987	1554		1577		1593	
1988	1652		1677		1694	
1985-88	6546	57.6	6645	58.5	6713	59.1
	<u>at 67%</u>		<u>at 68%</u>		<u>at 69%</u>	
1983	1087		1103		1119	
1985	1838		1865		1893	
1986	1605		1629		1653	
1987	1601		1625		1649	
1988	1702		1728		1753	
1985-88	6746	59.4	6847	60.3	6948	61.2
	<u>at 70%</u>		<u>at 71%</u>		<u>at 72%</u>	
1983	1135		1152		1168	
1985	1920		1948		1975	
1986	1677		1700		1724	
1987	1673		1697		1721	
1988	1779		1804		1830	
1985-88	7049	62.1	7149	62.9	7250	63.8

	<u>Refund at 73%</u>	<u>% of net contribution</u>	<u>Refund at 74%</u>	<u>% of net contribution</u>	<u>Refund at 75%</u>	<u>% of net contribution</u>
1983	1184		1200		1217	
1985	2002		2030		2057	
1986	1748		1722		1796	
1987	1745		1769		1793	
1988	1855		1880		1906	
1985-88	7350	64.7	7451	65.6	7552	66.5

	<u>VAT/expenditure gap</u>	<u>Net contribution before refunds</u>
1983	1622	1913
1985	2743	2809
1986	2395	2780
1987	2390	2792
1988	2541	2976
1985-88	10069	11357



CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

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Qz.03789

22 June 1984

CA 22/6

P Wray Esq
Head of Public Affairs Department
Imperial Chemical Industries PLC
Imperial Chemical House
Millbank
London SW1P 3JF

Dear Mr Wray,

THE FONTAINEBLEAU EUROPEAN COUNCIL

Thank you for your letter of 20 June with a copy of the aide memoire from the "Groupe des Présidents des Grandes Entreprises Européennes". The United Kingdom intends, in the discussion on the future development of the Community at Fontainebleau, to continue to press hard for measures which will genuinely ensure the operation of the internal market. It is probable that the Prime Minister will again indicate those priorities and areas which in our view should be tackled quickly.

I am sending copies to Sir Crispin Tickell (FCO) and to Mary Lackey (DTI).

Yours sincerely

D F WILLIAMSON

bc: Mr Powell, No 10 Downing Street
Mr Renwick, FCO

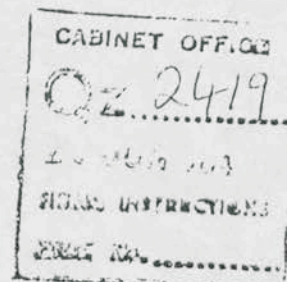
Imperial Chemical House
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Telex 21324
Telegraphic Impkemix Ldn



Imperial
Chemical
Industries
PLC

Mr D F Williamson CB
Deputy Secretary
Cabinet Office
70 Whitehall
London SW1A 2AS



Your ref	Our ref	Tel ext	Date
	MPW/SH	3274	20 June 84

Dear Mr Williamson

THE FONTAINEBLEAU EUROPEAN COUNCIL

Prior to the Athens European Council last December, I wrote to you (my letter of 2 December last) in relation to a group of Chairmen of some 20 major industrial companies (the so-called "Groupe des Présidents des Grandes Entreprises Européennes").

The Group, of which our Chairman John Harvey-Jones is a member, is aware of proposals from the Commission based on an initiative by Commissioner Narjes relating to the Consolidation of the Internal Market.

The Group of Chairmen, in support of this initiative, set up a task force which has produced an aide memoire on the Commission's communication which highlights particular areas of concern.

Mr Harvey-Jones has asked me, in his absence, to forward a copy of the aide memoire to you. While being well aware of HMG's positive attitude on internal market questions, we feel it may nevertheless be helpful for you to have a copy of the Group's comments and to communicate it, if you feel it appropriate, to Ministers attending the Fontainebleau Council.

For your information, I have written in similar terms to Crispin Tickell at the FCO and Mary Lackey at the DTI.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'M P Wray', written over a horizontal line.

M P Wray
Head of Public Affairs Department

cc: Mr J H Harvey-Jones

ANNEXE 2.GROUPE DES PRESIDENTS DES GRANDES ENTREPRISES EUROPEENNES

Aide-mémoire on the Commission's communication
 "La Consolidation du Marché Intérieur" (COM(84)305)

1. The Commission has prepared a comprehensive package of proposals to carry forward the integration of the EEC's internal market. It calls upon the Council to adopt certain measures before the end of 1984 and the remainder during 1985. The measures in question - (well over 100 in all) - are set out in two annexes to the Commission document. The Commission's objective - although it is not expressed in the document itself - is to make substantial and rapid progress before the accession of Spain and Portugal which is still scheduled for 1986 and which, it is feared, will inevitably slow down the pace. The Commission's proposals will be put forward to the next EEC Summit in Fontainebleau on 25-26 June.
2. The Groupe des Présidents has already stressed the urgent need for action on the internal market. It accordingly supports the Commission's initiative in this area.

3. The principle of delegation

A feature of the Commission's proposals which is particularly welcome is the recognition of the need to delegate authority. The Community's normal decision making processes are ill suited to the detailed and often technical issues involved in the regulation of the internal market. The Commission suggests that it could be given more freedom than now to legislate within the scope of framework directives emanating from the Council. Furthermore, in the matter of health and safety regulations and of technical standards, the Commission itself intends to delegate increasingly to private standards institutes the task of working out the details of new regulations.

4. Electronic data processing.

A similar process of delegation would be desirable in relation to frontier controls. At present, information about any consignment which crosses an internal frontier is generated in the first instance by the parties to the commercial transaction. The information then has to be transposed and adapted to the requirements of the customs authorities. If there existed standard definitions for all the required elements of data - and given the increasing use of the electronic processing for commercial data - the customs requirements could become an automatic by-product of the commercial transactions. The Commission's proposals are regrettably silent on the whole question of electronic data processing. The CADDIA system (Coopération dans l'Automatisation des Données et de la Documentation dans l'Importation-Exportation et l'Agriculture) is not even mentioned.

5. The need to select priorities

Although electronic data processing represents an important omission from the Commission's proposals, their scope generally is very comprehensive and they cover a vast range of issues. Furthermore, there is little differentiation made between the relative importance of the many measures listed. Some are assigned for adoption in 1984 and the rest in 1985. This approach, while understandable, carries inherent disadvantages. In the first place, the proposals include a number of measures which are highly controversial, only indirectly relevant to the internal market and regarded as undesirable by industry in general. Of these, the most obvious are :

- Product liability COM (76) 372 and
COM (79) 415
- 12th VAT Directive COM (82) 870 and
COM (84) 84
- Fifth Company Law Directive COM (72) 887 and
COM (83) 185
- Ninth Company Law Directive (still to be proposed)

The inclusion of such measures will generate resistance to the programme as a whole. Secondly, as regards timing, it would be preferable to take a more precise approach and to seek the agreement of the Council to the introduction of specific measures on specific dates. A time-table of that nature would necessarily imply commitment. To say, as the Commission proposes, that everything needs to be accomplished in 18 months is likely to prove counter-productive in practice. A more realistic time-table is needed together with a realistic selection of priorities. The following are suggested as being prime objectives :

- To adopt the 14th VAT Directive in order to shift the procedures for the payment of VAT away from the frontiers. This is particularly urgent in view of the UK's intention to reverse its present legislation which already incorporates the principles of the 14th Directive (para 34).
- To adopt the Single Administrative Document, subject to the proviso that the number of data elements featuring on the document should be reduced to the minimum. (The present proposal would result in 47 data elements whereas the equivalent Benelux document calls for only 15). (Para 37).

- To make progress on the elimination of Monetary Compensation Amounts (MCAs). The Council has already agreed, in principle, to phase out MCAs over a 3-year period (para 40).
- To make progress in the liberalisation of public purchasing in the telecommunications sector (para 64).

6. The avoidance of over-regulation

Finally, increasing emphasis must be placed on the elimination of unnecessary and obsolete regulations and on the progressive simplification of those that remain. The Commission's recognition of this need (paras 10, 11 and 43) is welcome.

PGWW/LL

Qz.03792

MR POWELL

EUROPEAN COUNCIL, FONTAINEBLEAU, 25-26 JUNE

I attach for the Prime Minister speaking notes on:

- (1) "Europe - the future";
- (2) budget imbalances;
- (3) the question of a straight forward percentage return;
- (4) the details of a straight forward percentage return (additional note for use if necessary);
- (5) the question of no United Kingdom contribution to any alleviation of the German contribution to our relief;
- (6) the 1984 budget overrun.

The first speaking note replaces that which was circulated with the briefs.

2. I am sending copies to Roger Bone (FCO), David Peretz (H M Treasury) and to Sir Robert Armstrong.


D F WILLIAMSON

22 June 1984

① cc BT
② Return to COP

Qz.03792

MR POWELL

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D F Williamson
D F WILLIAMSON

22 June 1984

STATEMENT
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STATEMENT
WALTON
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on the
1. Welcome the opportunity of discussion today on
future of the Community.

2. Need to discuss how we can develop a more effective
Community; make a reality of aspirations of Treaty of
Rome; enable Community to play a more effective part in
creating conditions for economic recovery and job
creation; and to play a more relevant part in lives of
the people of all our countries.

3. President Mitterrand put forward far reaching ideas
in his speech to the European Parliament. I circulated
a paper, "Europe - the Future" to all Heads of
Government. May be useful to describe it briefly.

Internal Policies

- We want to give our people the enormous benefits
of a common market of 270m. The creation of a
genuine common market in goods and services is
crucial to our ability to meet the US and Japanese
challenge. The success of US in creating new jobs
(12 million over the last 10 years) - and Europe's

disappointing record - shows how important internal barriers are as an obstacle to job creation. And we want to make the Community more relevant to everyday life, for example by allowing us to travel as freely and as cheaply in Europe as Americans can in the US.

- We must exploit areas where action is more effective at Community level than nationally. We already have examples in ESPRIT and JET. By creating the conditions which promote collaboration as well as competition between European firms, we can enable them to compete effectively, especially in the new technologies, with their powerful rivals.

- We must coordinate our research and development efforts to avoid duplication and waste.

- We must do more to encourage the learning of other country's languages. Full access to each others satellite broadcasting systems would further cultural interchange.

- We must not lose sight of the quality of life.

Many environmental problems require action on a Community level. UK has already suggested measures to eliminate lead in petrol. It is time for a programme of research to solve the problems of acid rain.

External Policies and Security

- We must ensure that Europe plays a more effective role in the management of world affairs and the world economy. The Community already works together on many aspects of external affairs: the Common Commercial Policy; political cooperation; and the Community's many links with other countries and groupings. These must be brought together and given greater coherence.

- The Community must use its weight to influence the economic policies of the USA and Japan and act jointly with them to promote the liberalisation of international trade.

- In political cooperation the Ten should concentrate their efforts where their leverage is greatest and their interest most directly affected, eg Middle East and Africa.

- In defence and security our objective must be to strengthen the European pillar of the alliance and improve European defence cooperation.

- Strengthening democracy and political stability requires us to complete the negotiations for Spanish and Portuguese accession quickly.

Institutions

4. We also believe there is scope for improving Community institutions:

- a Commission of 17 after enlargement is in our view too large for efficiency or to provide real jobs for people of the highest calibre. We should agree to a Commission of 12 rather than 17 on enlargement.

- The European Council should consider adopting a brief statement of priorities with specific timings and targets at the start of each year.

- The Commission should weed out each year hopelessly blocked items and bring unnecessary blockages to the notice of the Council.

- One of the three annual European Councils might be conducted on the "Gymnich" pattern.

- The Parliament must be involved more harmoniously in the work of the Community.

- The Treaty's voting provisions should be preserved - though not at the price of voting down a Member State which explains why and in what way its very important interests are involved. That would set the Community back rather than promoting its progress. But we certainly agree that the Luxembourg Compromise should not be abused.

5. These are all practical ideas but far reaching. We are arguing for radical progress, far beyond the concept of a free trade area. We see the Community as the focus of our vital interests; as the framework for a new industrial revolution; and as the only basis for a healthy transatlantic relationship. Others have their own ideas. Let us try to pool our thoughts. We are willing to join in considering all suggestions. I hope others will consider the ideas I have just put forward in the same spirit.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER ON BUDGET
IMBALANCES

1. The UK hopes that this European Council will mark a turning point in the Community. If we can fulfill the tasks we set ourselves at Stuttgart we shall have achieved the sound basis on which the relaunch of the Community can take place. We have practical, but far reaching ideas for the future development of the Community, set out in our paper which I circulated to Heads of Government two weeks ago. But for any discussion of the future of Europe to have any immediate relevance we need first to complete the negotiations. That means settling the one issue that stands in the way of overall agreement, namely budget imbalances. Want you to be in no doubt of the UK's desire to settle this issue. We want to put behind us the repeated negotiations on this subject, to settle it once and for all and to get on with realising the goals we all share for Europe's future.

2. For this reason we want to make a real effort to clinch a settlement on the budget. The basis of such an agreement must be the position we reached in March after months of negotiation. In other words, one more year of ad hoc refunds in 1984 with the budget system starting in 1985. The budget system designed by the French Presidency and incorporated in the draft conclusions of the Brussels European Council endorsed the vital principle that contributions must be based on ability to pay measured by objective criteria. Issue now is how to move forward from position reached in March.

3. The simplest way to resolve the outstanding issue is to set the notional figure for 1983 which will determine how the system works from 1985 onwards. Our partners have offered 1000 mecu. We said at Brussels that we could accept 1250 mecu. An effort will be required by both sides to settle the matter; and that effort will be more costly for the UK than the Nine.

4. Our unadjusted net contribution is already 2 billion ecu a year. With an increase in own resources it would not be long before it reached 3 billion ecu. Even under the proposed system we shall still be contributing very large amounts to the Community and to the costs of enlargement.

5. We stand by our acceptance of the text tabled by the Presidency at the European Council subject to agreement on the notional figure. As I have already said, we are ready to join with others in making a real effort to resolve the remaining difference on the notional figure. This must involve movement in both directions. We can settle this on the basis of a fair compromise between 1000 and 1250 million ecu. Would remind colleagues that Britain will have to bear the total cost of such a move whereas the cost to other Member States of an equivalent move will be divided among nine. Are other Member States ready to settle this on the lines I have suggested?

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER ON
STRAIGHTFORWARD PERCENTAGE RETURN

1. In March we got close to agreement on a system tabled by the French Presidency. That text was the outcome of months of negotiation and we should be very hesitant about moving away from what was provisionally agreed. It can be in nobody's interest to reopen the negotiation on issues where outline agreement had been reached since this risks reopening wider issues affecting the whole negotiation.
2. The whole basis of this negotiation, from Stuttgart onwards, has been to achieve a budget system which would form part of the own resources decision of the Community. The Presidency text proposed just such a system which was carefully balanced to provide a reasonable degree of protection against an increase in the budget burden on a Member State which qualified. It is not clear how those essential elements of the system would be maintained under what is now suggested.
3. The Presidency proposal offers us only [65%] of the VAT share/expenditure share gap. That would leave us bearing a very large proportion of the burden represented by that gap, not to mention the real burden which is bigger still.
4. The 65% return on the VAT share/expenditure share gap represents 1054 mecus on 1983 figures. In other words it would produce a less equitable result for the UK than could be achieved by meeting each other half way under the system. Compared with the system, the percentage return, at the level proposed would expose the United Kingdom to much greater increases in our budget burden as our VAT share/expenditure share gap rises. Whatever happens we should still be getting only a 65% return on the VAT share/expenditure share gap.

5. For this reason, and for the wider reasons I have already mentioned, we should think very carefully before moving away from the system to try to reach a settlement on a percentage figure as suggested. For the UK to accept a percentage return at all would involve a substantial degree of economic risk. We would need to look at a significantly higher figure before we could consider this approach. We must achieve results which, in the long run, would provide the United Kingdom with results as satisfactory as meeting us half way under the system.

EUROPEAN COUNCIL: FURTHER SPEAKING NOTE ON STRAIGHT PERCENTAGE OF
VAT SHARE/EXPENDITURE SHARE GAP IF DETAILED DISCUSSION IS ENGAGED

1. As I indicated earlier, by whatever route a settlement is reached we must achieve a systematic and lasting approach reflecting the fact that this is a Community problem. The principles enshrined in the March Presidency text on duration and on incorporation of the corrective mechanism in the revised own resources decision must be maintained. It would be important too to ensure that, as has always been recognised, the corrective mechanism should be linked to relative prosperity. Officials should be asked to work on a text showing how this could be achieved. One way would be to express the link between relative prosperity and the rate of compensation in such a way that countries of below 90% of average prosperity in the enlarged Community would not be expected to have a negative VAT share/expenditure share gap at all, while countries between 90% and 115% of relative prosperity would qualify for a percentage return on the VAT share/expenditure share gap.

SPEAKING NOTE FOR USE IF IT IS SUGGESTED THAT GERMANY SHOULD PAY ONLY TWO THIRDS OF ITS FINANCING SHARE OF UK RELIEFS AND IF IT IS ALSO PROPOSED THAT BRITAIN SHOULD CONTRIBUTE TO SUCH AN ABATEMENT OF THE GERMAN CONTRIBUTION

1. The whole point of the system is to enable a Member State which bears a disproportionate burden to qualify for reliefs. Nothing could be more nonsensical than to expect us to contribute to help Germany pay her share of our reliefs. This is just another way of diminishing the benefits of the system. [As necessary]: If Member States wanted to go down this route then we should expect an increase in the notional figure [or percentage rate of return] to compensate us for the reduction in our reliefs.

[If there is further pressure for the UK to contribute to the abatement of German reliefs]: The only circumstances in which this might be looked at is if any UK contribution counted towards the measured VAT share/expenditure share gap on which we are entitled to correction. Officials should be asked to incorporate appropriate language in the text.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER
ON 1984 BUDGET OVERRUN

1. The UK is a bit surprised at this being raised in a substantive way today. Foreign Affairs Council discussed the issue last week and agreed that the question should be considered at the Budget Council on 19 July. It is very difficult for us to deal with the issue here without proper preparation. It is clear from the discussion that has already taken place that a lot more work needs to be done in searching for all available savings. Depending on the state of that work, and provided that we can reach satisfactory resolution of the wider negotiations here at Fontainebleau then we shall be prepared, on 19 July, to join in looking for ways of dealing with the problem.

2. [If pressed to accept that 1984 overrun should be financed by "advances" in accordance with VAT shares]: I understand that several Member States, like us, are opposed to the Commission's loan proposal. This proposal for advances does not seem very different. It is another way round the 1% ceiling. Our view remains that we should make substantial savings. The European

/Court

Court of Auditors has drawn attention to the fact that the Commission have not exhausted all the possibilities. At the same time, the Agriculture Council has not yet considered separate proposals put forward by ourselves and the Netherlands for savings. If, thereafter, it is clear that we cannot solve the whole problem by savings then we shall need to see how much expenditure could be deferred in 1985, bearing in mind that 675 mecu of expenditure was deferred last year.

[If others argue that deferral into 1985 will make it impossible to keep the budget within the 1% ceiling and will therefore require either supplementary financing or the early introduction of a revised own resources ceiling]

The British Government's position has always been that the Community budget must be financed within the ceiling of available own resources. If some expenditure is deferred into 1985 it will still be possible to keep the budget within the 1% ceiling. The main problem will arise in autumn when the principal burden of agricultural expenditure is felt. In our view, therefore, the best solution in those circumstances would be to bring the new own resources

/decision

decision into effect from 1 October 1985, so that the UK's 1984 refund could be financed by a reduction of VAT in 1985 and so that any 1984 overrun deferred into 1985 could also be covered.

bc: Mr Powell, No 10 ✓

PERSONAL AND CONFIDENTIAL

Qz.03794

FOREIGN AND COMMONWEALTH SECRETARY

*This is the minute case
that I spoke to you.
I think that it is a personal
basis to the foreign
Commonwealth Secretary*

DF

EUROPEAN COUNCIL, 25-26 JUNE

Despite the alarms and excursions of the last day or two, I think that all the other member states will agree on the following:-

- (i) one ad hoc year. If we present our position decisively, they will abandon their opening position of more than one ad hoc year and will not die in the last ditch against us;
- (ii) basing ourselves on 1622 million ecu on 1983 figures, ie on a payments basis;
- (iii) a settlement which is equivalent to a refund of 1100 million ecu on 1983 figures. It is possible that this may be expressed simply in terms of this figure. It is more probable in my view that the decision will be to give the United Kingdom in the revised Own Resources Decision a refund expressed as a percentage of the VAT share/expenditure share gap. 1100 as a percentage of 1622 million ecu is 67.82 per cent, or approximately 68 per cent. This is equivalent to an estimated average refund for the United Kingdom over the period 1985-88 of 60 per cent of the full unadjusted net contribution;
- (iv) the German problem will be dealt with either by a very forthcoming declaration or by setting a high threshold or by abating their contribution to the United Kingdom refund by one third. In each case we should be able to ensure that the effect on us is nil or minimal.

PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

2. Even if the negotiation starts with wilder propositions from the French Presidency, I think that we can get it back to the one ad hoc year/straight percentage refund system and carry the other member states with us. The real crux of the negotiation is how far, if at all, we can get them above the refund of two-thirds of the VAT share/expenditure share gap.

3. It does seem to me that, if the French Presidency starts on the wrong basis, we may need to bring it back on to a more acceptable basis by stating clearly that we will settle on one ad hoc year and the equivalent of either 1125 or 1100 million ecu expressed as a percentage of the VAT share/expenditure share gap of 1622 million ecu. There could be a serious danger of a rupture if the discussion remains on an unacceptable basis without a substitute proposal from us.

Df Williamson

D F WILLIAMSON

22 June 1984

MJ

cc Sir P Cradock

22 June 1984

Foreign Affairs Committee Report
on the Forthcoming Fontainebleau
Summit

Thank you for sending me this report with your letter of 21 June. The Prime Minister has noted it as well as the Foreign Secretary's statement.

CP

Roger Bone Esq
Foreign and Commonwealth Office.

RB

RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

21 June 1984

Prime Minister

John Chubb,

MS

A useful & supportive report

C D P 21/6

Foreign Affairs Committee Report on the Forthcoming
Fontainebleau Summit

The Foreign Affairs Committee of the House of Commons have published a report on the forthcoming Fontainebleau Summit. I enclose a copy together with a statement made by the Foreign Secretary about the report.

Attached to cover of file.

The report follows the evidence which Sir Geoffrey Howe gave to the Committee on 2 April and the Committee's own visit to Paris, Bonn and Rome in May.

As Sir Geoffrey Howe's statement makes clear, the Committee's report is on the whole helpful, particularly in suggesting that other Member States have not shown adequate realisation of the extent to which the United Kingdom has moved in the interests of reaching a settlement. It also brings out very clearly the extent of our net contribution and the fact that the question of budgetary imbalances is a question of critical concern to the Community as a whole.

The report does not comment on the merits of an increase in own resources though the Committee point to the virtual impossibility of financing the Community without one. They also refer to the importance of controlling Community expenditure as a major ingredient in any settlement.

The main points in the report are as follows:

- (i) all the elements currently under negotiation in the post-Stuttgart negotiations form a package. The issues should not be decoupled (paragraph 9);
- (ii) any mechanism allowing for automatic increases in the own resources ceiling without reference to national parliaments would be unacceptable to the House of Commons (paragraph 16);

/(iii)

RESTRICTED



- (iii) even if agreement on an increase in own resources is reached at Fontainebleau, some form of bridging finance will be needed if UK refunds are to be paid (paragraph 17);
- (iv) control over the growth of the CAP, and the general tightening of budgetary discipline, are vital. The effectiveness of budget discipline will depend upon the extent to which any arrangements are enshrined in legislative form (paragraphs 24 and 25);
- (v) the issue of budgetary imbalances transcends the particular problems of the United Kingdom and has become a question of the critical concern of the whole Community (paragraph 33);
- (vi) contrary to the impression given by press reports, both the UK and other Member States have made significant concessions: the UK by accepting the VAT share/expenditure share gap; the others by accepting only one more ad hoc year (paragraphs 36 to 37);
- (vii) other Community politicians should recognise that HMG has moved away from the position adopted in 1979 and now wished to secure merely 'some relatively continuous and reasonably fair conclusion' (paragraph 38);
- (viii) the UK's attitude to the notion of European union gives little evidence that the inclusion of this item on the Fontainebleau agenda will help to defuse the budget negotiations (paragraph 42);
- (ix) the Committee's talks in Paris, Bonn and Rome revealed a desire to settle the issue but also a good deal of frustration and exasperation with the United Kingdom. The French Government showed a desire to bridge the gap but gave no inkling of how it should be done; the German attitude is ambivalent; the Italians have little sympathy with our negotiating stance but fear the prospect of a growing Bonn/Paris axis (paragraphs 47-57);
- (x) other Community Governments should recognise HMG's flexible approach, the extent of its concessions and the evidence of its commitment to the Community (paragraph 58);
- (xi) the UK should not sacrifice potentially more important budgetary matters (budget discipline etc) in the interests of a popular settlement on the rebates issue (paragraph 59);

/(xii)



- (xii) the ground should be prepared for the possibility of further disagreement at Fontainebleau with a view to making it clear that this is not a last chance and that the negotiations should continue (paragraph 62);
- (xiii) the European Council does not have the same legislative role as other Community institutions. It should focus more on long term policy matters and should not undermine the decision making role of the Council of Ministers (paragraphs 64-68).

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

(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street



COMMENT BY THE FOREIGN AND COMMONWEALTH SECRETARY ON "THE FORTHCOMING FONTAINEBLEAU SUMMIT"

The Foreign and Commonwealth Secretary has seen the report of the Foreign Affairs Committee. He welcomes their thorough analysis of the problems facing the Community and their assessment of the issues at stake in the negotiations.

As the Committee point out, considerable progress has already been made in the negotiations and the Government have made a number of significant moves in the interests of an agreement. The Government are committed to try to settle the negotiations at Fontainebleau so that the Community can concentrate on its future development and on playing its full part in international affairs. The Government hope that other Member States will be willing to join with it in making this final effort to clinch a settlement.

Euro Council

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FM BONN 211240Z JUN 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 622 OF 21 JUNE

CONFIDENTIAL

INFO IMMEDIATE UKREP BRUSSELS PARIS
INFO ROUTINE ATHENS EMBASSY BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG
ROME THE HAGUE

EC COUNCIL AT FONTAINEBLEAU: THE GERMAN APPROACH

SUMMARY

1. PRESSURES AND INCENTIVES FOR KOHL TO SETTLE, BUT NOT AT ANY PRICE. IRRITATION OVER UK 'INTRANSIGENCE' NOT A DECISIVE FACTOR. BRUSSELS EXPERIENCE WILL MAKE HIM CAUTIOUS. UNLIKELY TO TAKE ANY EARLY INITIATIVES ON BUDGET ISSUE: BUT READY TO THROW WEIGHT BEHIND ANY MOVE TOWARDS CONSENSUS. AWARE THAT MUCH AT STAKE FOR EUROPE. READY TO WORK ON BRUSSELS DRAFT CONCLUSIONS, BUT OPEN TO OTHER APPROACHES. DEMANDEUR ON TWO, POSSIBLY THREE, ISSUES. SHOULD IMPLY FLEXIBLE AND ACCOMMODATING APPROACH. MAY BE UNCLEAR OVER PRESIDENCY'S GAME PLAN. BY CONTRAST, NOW CLEAR ABOUT UK REQUIREMENTS AND IDEAS FOR FUTURE DEVELOPMENT OF COMMUNITY. GROUNDS FOR HOPE THAT GERMAN CONTRIBUTION TO NEGOTIATION WILL BE MORE HELPFUL THAN AT BRUSSELS.

DETAIL

2. KOHL SEES THE RESULT OF THE EUROPEAN ELECTION AS AN EXPRESSION OF DISAPPOINTMENT AND IMPATIENCE WITH EUROPE. TURN OUT IN THE FRG WAS DOWN 10 PER CENT ON LAST TIME, THE BIGGEST DROP IN EUROPE. KOHL WILL WANT THE SUMMIT TO HELP OVERCOME THIS DISAPPOINTMENT. KOHL'S PERSONAL CONCERN TO SEE EUROPE PROGRESS, HIS DESIRE TO SEE HIS STUTTGART PACKAGE FINALLY AGREED AND HIS NEED, IN VIEW OF RECENT DIFFICULTIES - THE PROBLEMS OF THE FDP, LAMBSDORFF AND STRIKES (BONN TELNOS 551, 595 AND 612) - TO INVOLVE HIS GOVERNMENT IN A SUCCESSFUL ENTERPRISE, ADD UP TO COMBINATION OF INCENTIVES AND PRESSURES THAT WILL ENCOURAGE KOHL TO WORK HARD FOR A SUCCESS. HE HAS SAID MOVEMENT BY ALL IS NECESSARY AND THAT EUROPE MUST GO FORWARD STEP BY STEP. THESE FACTORS OUTWEIGH ANY IRRITATION AT UK 'INTRANSIGENCE'. BUT HE WILL NOT SETTLE AT ANY PRICE.

3. SCHOOLED BY HIS EXPERIENCE AT BRUSSELS, I WOULD NOT EXPECT KOHL TO EXPOSE HIMSELF BY TAKING FURTHER INITIATIVES AT FONTAINEBLEAU, AT ANY RATE EARLY ON. HE WILL BE CAUTIOUS AND, AS FAR AS POSSIBLE, AVOID PLACING HIMSELF IN THE POSITION OF DEMANDEUR (SEE PARA 5 BELOW). HE WILL WANT TO KEEP IN LINE WITH THE PRESIDENCY AND WILL NO DOUBT BE READY TO THROW THE WEIGHT OF THE FEDERAL REPUBLIC BEHIND ANY APPROACH THAT HAS THE POTENTIAL OF GATHERING A CONSENSUS. THE STATUS OF THE VARIOUS IDEAS GERMAN

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OFFICIALS.

OFFICIALS HAVE BEEN WORKING UP IS UNCLEAR. IT SEEMS UNLIKELY THAT THEY WANT TO PROPOSE A NEW 'PLAN'. THAT SAID, IF DISCUSSION TAKES AN UNPREDICTABLE OR DIFFICULT TURN KOHL MIGHT WELL ADOPT A MORE ACTIVE ROLE.

4. GERMAN OFFICIALS ARE APPROACHING THE SUMMIT IN SOBER BUT NOT DESPAIRING MOOD. THEY CONSIDER THAT MORE IS AT STAKE THIS TIME THAN EVER BEFORE AND THAT FAILURE COULD LEAVE US WITH A DIFFERENT COMMUNITY. BUT ALTHOUGH THE STAKES ARE HIGH AND GERMAN OFFICIALS SEEM IN THE DARK ABOUT PRESIDENCY INTENTIONS, REMARKABLY THEY ARE NOT EXHIBITING THE SIGNS OF ACUTE NERVOUSNESS THAT THIS COMBINATION MIGHT BE EXPECTED TO PRODUCE. THEY WILL BRIEF KOHL TO ARGUE FOR AGREEMENT ON THE SYSTEM OUTLINED IN THE DRAFT PRESIDENCY CONCLUSIONS AT BRUSSELS AND THAT THE BEST APPROACH IS TO DISCUSS PARAMETERS RATHER THAN THE STARTING FIGURE. ASSUMING A RESUMPTION OF THE NEGOTIATIONS ON THIS BASIS, THE GERMANS WOULD, AS BEFORE, INSIST ON BEING LEFT OFF PAYING ONE-THIRD OF THEIR SHARE OF REFUNDS TO THE UK FOR THE LUMP SUM YEAR. FOR THE SYSTEM, WHICH THEY WOULD BE HAPPY TO SEE ENTER INTO FORCE WITH EFFECT FROM 1985, THEY WOULD, I AM CONFIDENT, BE READY TO MOVE ABOVE 1000 MECU FOR THE STARTING FIGURE. I DOUBT THAT EFFORTS TO CLOSE THE 250 MECU GAP WOULD FINDER ON GERMAN RESISTANCE ALONE. AS FAR AS GERMAN REQUIREMENTS FOR COMPENSATION/PROTECTION GO, EVEN THE FINANCE MINISTRY ARE NO LONGER INSISTING ON IMMEDIATE COMPENSATION - A QUESTION DESCRIBED AS OF SECOND ORDER IMPORTANCE - BUT THEY WANT A MECHANISM THAT PROTECTS THEM AT SOME POINT IN THE FUTURE. WHETHER AT THAT POINT THEY WOULD WANT COMPENSATION, OR A STOP ON THEIR CONTRIBUTION IS NOT CLEAR.

5. BUT GERMAN OFFICIALS DO NOT HAVE MUCH CONFIDENCE THAT AGREEMENT CAN BE REACHED ON THE BRUSSELS DRAFT CONCLUSIONS AND ARE IN CONSEQUENCE READY (PERHAPS TOO READY) TO CONTEMPLATE NEGOTIATING ON SOME OF THE PRESIDENCY'S IDEAS (SEE BONN TELNO 610). IN ADDITION TO THE MODEL DESCRIBED IN TUR OFFICIALS HERE HAVE ALSO SPOKEN OF COMPENSATION FOR BRITAIN AT A FIXED PERCENTAGE OF THE VAT EXPENDITURE GAP. THIS WOULD, THEY SAY, HAVE THE MERIT OF SIMPLICITY, AN ASSET FOR NEGOTIATION AT HEADS OF GOVERNMENT LEVEL. IT WOULD, HOWEVER, RAISE THE QUESTION OF REDUCING THE GERMAN CONTRIBUTION TO UK REFUNDS. HAVING PROPOSED A LUMP SUM APPROACH AT BRUSSELS, KOHL, WE ARE TOLD, WOULD FIND IT DIFFICULT TO ARGUE AGAINST ONE AT FONTAINEBLEAU. AFTER ALL HIS PROPOSAL IS STILL FORMALLY ON THE TABLE. GIVEN THE OPPOSITION ELSEWHERE TO A SYSTEM, GERMAN OFFICIALS ARGUE THAT AN APPROACH THAT WAS BASED ON 1000 MECU, SUPPLEMENTED IN ANY NUMBER OF WAYS, WOULD BE POLITICALLY ATTRACTIVE. THE 1000 MECU FIGURE WOULD RETAIN SOME OF THE CHARACTER OF A LUMP SUM SETTLEMENT. GERMAN OFFICIALS CLAIM THAT THE FRENCH ARE ADAMANT THAT RELIEF FOR THE UK WOULD HAVE TO BE TIME BOUND. THEY SPECULATE THAT THE FRENCH WILL ONLY AGREE TO A SYSTEM WHEN FRANCE NEEDS ONE, IE WHEN THE 1.4 PER CENT VAT CEILING RUNS OUT.

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/6.

6. THE GERMANS ARE DEMANDEUR ON TWO, AND POSSIBLY THREE, MATTERS - APPROVAL FOR THE CONTROVERSIAL NATIONAL AIDS TO FARMERS, SOME FORM OF PROTECTION WITHIN THE BUDGET AND, POSSIBLY, OVER THE QUESTION OF THE SUCCESSION TO THORN. ALTHOUGH THEY SAY BIEDENKOPF REMAINS A SERIOUS CANDIDATE WE HAVE NO CONFIRMATION THAT HIS NAME WILL GO FORWARD. THESE FACTORS COUPLED WITH GERMAN KEENESS ON A SETTLEMENT SHOULD MEAN THAT THEY APPROACH THE NEGOTIATION IN AN ACCOMMODATING AND FLEXIBLE WAY.

7. THERE ARE POSITIVE FACTORS. WE HAVE ALREADY INDICATED OUR READINESS TO SHOW FLEXIBILITY. WE HAVE ALSO OUTLINED OUR APPROACH TO THE FUTURE DEVELOPMENT OF THE COMMUNITY. WE KNOW THAT THAT HAS BEEN WELL RECEIVED. THE GERMANS HAVE, I THINK, A FAIRLY SHREWD IDEA OF THE KIND OF FIGURES WE NEED, AND THE PASSAGE OF TIME MAY HAVE HELPED THEM TO GET USED TO WHAT IT WILL MEAN FOR THEM. BY CONTRAST IT IS NOT CLEAR WHETHER THEY ARE FULLY PRIVY TO THE PRESIDENCY'S WISHES AND INTENTIONS: OFFICIALS, WITH APPARENT SINCERITY, SAY THEY ARE QUITE UNCERTAIN WHAT THE PRESIDENCY'S GAME PLAN IS. IN CONTACT WITH OFFICIALS OVER THE PAST WEEK, WE HAVE FOUND NO DISPOSITION TO ATTACK THE BRITISH. MOREOVER, PRESS COMMENT HAS COOLED OFF. IN YESTERDAY'S PRESS (BONN TELNO 618) THERE WAS A POSITIVE TONE IN THE REPORTING OF THE LUXEMBOURG COUNCIL.

8. THE GERMANS WILL NOT SETTLE AT ANY PRICE BUT I JUDGE THAT THEY ARE APPROACHING FONTAINEBLEAU IN REALISTIC MOOD, ARE VERY KEEN ON A SUCCESS THAT RIDES THE COMMUNITY OF THE BUDGETARY INCUBUS AND THUS FREES IT TO MAKE PROGRESS, EVEN IF THAT PROGRESS CANNOT BE AS SPECTACULAR AS THEY WOULD LIKE. IT IS, HOWEVER, UNCLEAR WHAT THE GERMANS REALLY WANT FOR THEMSELVES ON THE BUDGET AND HOW THAT WILL INFLUENCE OTHERS' FLEXIBILITY, NOR IS IT CLEAR THAT THEY WOULD BE PREPARED TO PUSH OTHERS IN THE RIGHT DIRECTION RATHER THAN MERELY FOLLOW. THEY WILL WANT TO AVOID PROBLEMS WITH THE FRENCH AND OF COURSE ENDORSEMENT FOR THEIR NATIONAL AIDS.

FCO PLEASE ADVANCE TO:-

WILLIAMSON, DURIE: CABINET OFFICE

UNWIN, FITCHEW: HM TREASURY

TICKELL, RENWICK, FAIRWEATHER: FCO

ANDREWS, MRS ATTRIDGE: MAFF.

(ADVANCED AS REQUESTED)

MALLABY

FRAME ECONOMIC

ECD (1)

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ADVANCE ADDRESSEES

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FM THE HAGUE 211500Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 223 OF 21 JUNE 1984

INFO PRIORITY EC POSTS AND UKREP BRUSSELS

PARIS TELNO 772: EUROPEAN COUNCIL

1. POSTHUMUS MEYJES CONFIRMED TO ME TODAY THAT LUBBERS AND MITTERRAND HAD DURING THE FORMER'S VISIT TO PARIS YESTERDAY DISCUSSED A PRESIDENCY SUGGESTION FOR A UK REFUND BASED ON A FLAT RATE OF COMPENSATION IN PLACE OF THE SYSTEM. IT WAS THE DUTCH UNDERSTANDING THAT THE PRESIDENCY WERE AWAITING OUR REACTION TO THIS PROPOSAL.

2. I COMMENTED THAT TO ABANDON THE SYSTEM SO LATE IN THE DAY WOULD NOT HELP THE SEARCH FOR A SOLUTION. POSTHUMUS MEYJES REPLIED THAT THE NETHERLANDS DID NOT APPLAUD THIS STEP BUT SAW LITTLE ALTERNATIVE, GIVEN THE TOTAL IMPASSE OVER THE REFERENCE FIGURE. HE ADDED THAT THEY HAD BEEN TOLD BY THE FRENCH THAT BOTH THE ITALIANS AND THE GERMANS HAD REJECTED THE SYSTEM PROPOSED IN MARCH AS A BASIS FOR A SETTLEMENT. LUBBERS TOLD MITTERRAND THAT THE DUTCH FULLY APPROVED THE FRENCH HANDLING OF THE NEGOTIATIONS AND ENCOURAGED HIM TO CONTINUE.

3. ADDRESSING THE FOREIGN AFFAIRS COMMITTEE OF THE SECOND CHAMBER ON 21 JUNE VAN DEN BROEK MADE THE FOLLOWING POINTS:

- (A) IN THE DUTCH VIEW THE CONCESSIONS ALREADY MADE TO THE UK WENT 'A VERY LONG WAY'. ENOUGH WAS ENOUGH.
- (B) SUCH FLEXIBILITY AS WAS LEFT IN THE DUTCH POSITION ON BUDGET IMBALANCES WOULD BE MORE LIKELY TO EMERGE IN DISCUSSION OF MODALITIES THAN IN TALK ABOUT MONEY.
- (C) THE NETHERLANDS GOVERNMENT HAD HOWEVER NOTED WITH APPRECIATION THE TONE OF YOUR PRESS CONFERENCE REMARKS ON 19 JUNE: 'I AM IN NO DOUBT ABOUT THE STRENGTH OF THE UK COMMITMENT TO EUROPE'.

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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

21 June 1984

Telephone call
fixed for
1100 a.m. The first
point to make to him
is that X is out of
the question.

New Aster,

European Council: Budget Imbalances

X) Following the Dutch Prime Minister's visit to Paris on 19 June, Dr Posthumous Meyjes telephoned Crispin Tickell this afternoon to say that President Mitterrand had told Lubbers that the French had made a proposal to us. This was for two ad hoc years followed by a system based on two-thirds of the VAT/expenditure share gap. This corresponds to the ideas put by M. Dumas, to Sir Geoffrey Howe in Luxembourg, though no formal French proposal was made. Sir Geoffrey Howe made clear to M. Dumas our views on those ideas, and intends to speak to him again.

C.D.P.
21/6

When the Prime Minister telephones Mr Lubbers, she may like to draw on the following:

- (a) there has been no formal proposal from the French, though we have had several discussions with them;
- (b) we cannot agree to further ad hoc years after the 1,000 mecu agreed for 1984;
- (c) the system in the Presidency text was the product of long and hard negotiation. We think agreement should be completed on that basis and are ready to play our part in this;
- (d) if there were to be any question of moving on to a different basis, there would have to be a higher rate of return than has so far been indicated to us;
- (e) we believe that agreement is possible at Fontainebleau, and look to the Dutch to play an active role in promoting this.

/In the

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In the time available this evening, Sir Geoffrey Howe has not seen this letter. I shall be showing him a copy in tonight's box and will let you know first thing in the morning if he has any comments to make.

Yours
R B Bone

(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

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GRS 500
CONFIDENTIAL
FM THE HAGUE 201445Z JUNE 84
TO PRIORITY FCO
TELEGRAM NUMBER 222 OF 20 JUNE
AND TO ROUTINE INFO ALL EC POSTS

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MA

EUROPEAN COUNCIL

1. AT A COMMUNITY AMBASSADOR'S LUNCH ON 20 JUNE VAN EEKELEN SAID HE SAW COMPLETION OF THE POST-STUTTGART NEGOTIATIONS AT FONTAINEBLEAU AS POSSIBLE BUT BY NO MEANS EASY. HE HAD THE FIRM IMPRESSION THAT BRITAIN WAS PREPARED TO MAKE CONCESSIONS TO CLINCH A DEAL ON BUDGETARY IMBALANCES PROVIDED OTHERS DID SO. HE EMPHASISED THE CONCESSIONS ALREADY MADE BY THE NINE IN OFFERING 1,000 MECU AND A PERMANENT SYSTEM AND SAID IT WOULD BE DIFFICULT FOR THEM TO MOVE MUCH FURTHER. REFERRING TO SOLUTIONS BEING FLOATED, HE MENTIONED A SIMPLER VERSION OF THE SYSTEM PROPOSED BY THE PRESIDENCY IN MARCH WHICH HAD BEEN PREPARED BY THE COUNCIL SECRETARIAT. VAN EEKELEN STRESSED THAT THE NETHERLANDS WOULD TAKE NO INITIATIVE IN THE SEARCH FOR A SOLUTION : THIS WAS A TASK WHICH ONLY THE PRESIDENCY COULD PERFORM. HE SAW NO ROLE FOR THE COMMISSION. HE WAS CONCERNED THAT A SOLUTION WOULD BECOME MORE DIFFICULT IF THE GERMANS WERE TO INSIST ON RAISING AT THE COUNCIL THEIR DESIRE FOR INCREASED COMPENSATION TO THEIR FARMERS. (ALTHOUGH HE DID NOT REPEAT THE POINT AT LUNCH, VAN EEKELEN WAS REPORTED FROM LUXEMBOURG AS SAYING ON MONDAY THAT THE NETHERLANDS WOULD REJECT A SIMPLE SPLITTING OF THE DIFFERENCE BETWEEN 1,000 AND 1250 MECUS.)

2. VAN EEKELEN SAID THAT THE NETHERLANDS WISHED TO SEE THE RETURN OF A MORE INFORMAL ROLE FOR THE COUNCIL, AND SPOKE WITH APPROVAL OF THE PROPOSAL IN OUR PAPER FOR A REDUCTION TO TWO MEETINGS A YEAR WITH THE POSSIBILITY OF A THIRD GYMnich-TYPE MEETING.

3. WHILE NOT OPPOSED IN PRINCIPLE TO THE IDEA OF A POCO SECRETARIAT, THE NETHERLANDS NEEDED TO BE CONVINCED THAT, IN THE ABSENCE OF PROGRESS TOWARDS A COMMON FOREIGN POLICY, ENOUGH WORK WOULD BE FOUND FOR A SECRETARIAT TO JUSTIFY ITS EXISTENCE.

4. WHILE THE DUTCH ACCEPTED THE INEVITABILITY OF A DEFICIT IN 1984, THEY WISHED IT TO BE KEPT AS SMALL AS POSSIBLE. THEY HOPED HEADS OF GOVERNMENT WOULD GIVE FOREIGN MINISTERS A STEER AND INSIST THAT AGREEMENT BE REACHED BEFORE THE SUMMER ON HOW THE DEFICIT SHOULD BE COVERED. THE DUTCH PREFERENCE REMAINED FOR ADVANCES BY MEMBER STATES ON THE BASIS OF THE VAT KEY.

5. POINTING TO SOME PROGRESS ON ENLARGEMENT AT THE FOREIGN AFFAIRS COUNCIL, VAN EEKELEN SAID THAT PROGRESS ON THE DOSSIERS SHOULD BE TAKEN AS FAR AS POSSIBLE BEFORE THE SUMMER BREAK AND THAT THE COMMISSION BE ASKED TO DRAW THE THREADS OF THE NEGOTIATIONS TOGETHER THEREAFTER.

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6. HE WAS SCEPTICAL OF THE PROGRESS MADE SO FAR IN THE EC/ACP NEGOTIATIONS AND FELT THAT THE BALANCE BETWEEN TRADE AND AID HAD BEEN LOST. THE NETHERLANDS FAVOURED THE MAINTENANCE OF THE EDF IN REAL TERMS SUBJECT TO REVIEW OF THE FINANCING KEY. HE ACCEPTED THAT IT WAS NOT REALISTIC TO PURSUE THE ALTERNATIVE PROPOSAL OF BUDGETISATION WITH A CONSEQUENT INCREASE IN OWN RESOURCES BEYOND 1.4.

8. ALTHOUGH IN THE DUTCH VIEW THE AGENDA FOR THE EUROPEAN COUNCIL WAS ALREADY TOO LONG, VAN EEKELÉN SAID THEY WISHED IT TO INCLUDE A DISCUSSION ON UNEMPLOYMENT, ON WHICH A STATEMENT WAS BEING PREPARED FOR LUBBERS. THE NETHERLANDS GOVERNMENT WOULD FIND IT DIFFICULT TO EXPLAIN DOMESTICALLY A FAILURE TO DISCUSS THIS SUBJECT AT FONTAINEBLEAU.

CHAPMAN

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AMBASSADE DE FRANCE

LONDRES

21st June, 1984

**PRIME MINISTER'S
PERSONAL MESSAGE**
SERIAL No. T111^{AA}/84.

Seen by PM e
copied to FW e
Cab. Offe. Translation
obtained

MASTER

OPS

EUFOPOL: Council: PE18

Dear Prime Minister,

CND

I have just received a message from
Monsieur François Mitterrand, President of the
French Republic, addressed to you.

I enclose it herewith.

Yours Sincerely

A. Grenier

Alain Grenier
Chargé d'Affaires a.i.

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON S.W.1

MESSAGE OF MONSIEUR FRANCOIS MITTERRAND
PRESIDENT OF THE FRENCH REPUBLIC

TO

THE RT. HON. MARGARET THATCHER, M.P.
PRIME MINISTER OF GREAT BRITAIN

Paris, le 20 juin 1984

"Madame le Premier Ministre,

Nous allons nous retrouver à Fontainebleau pour le deuxième Conseil des six premiers mois de 1984. Afin de le préparer dans les meilleures conditions, je souhaite, à la lumière de nos entretiens, vous en préciser les principales caractéristiques.

Depuis Bruxelles et à la suite des Conseils de Stuttgart et d'Athènes, des progrès substantiels ont été accomplis dans la vie communautaire.

Un contentieux subsiste toutefois : il s'agit de la correction des déséquilibres budgétaires, dont le non-règlement diffère l'augmentation des ressources propres et, par voie de conséquence, menace de priver la Communauté des moyens qui seront nécessaires lors de l'élargissement à l'Espagne et au Portugal.

.../...

Nous examinerons ce problème en même temps que celui du budget 1984.

Mais je crois qu'il nous faut maintenant placer le développement de la Communauté dans la perspective politique que commandent les intérêts bien compris de l'Europe et de chacun de nos pays.

1) Il conviendra d'abord d'organiser un débat approfondi sur les grandes questions internationales : relations est-ouest, négociations sur le désarmement, relations économiques, problèmes de la dette et de l'aide au tiers-monde, sujets d'actualité (Proche et Moyen-Orient, Amérique Centrale, Afrique australe, ou toute autre question que l'un d'entre nous souhaitera aborder).

2) Nous pourrions faire le point sur les politiques communautaires et souligner la nécessité de confirmer quelques orientations nouvelles, notamment pour l'environnement, l'espace social, la culture et la recherche.

3) Il serait souhaitable de rassembler sous le thème de l'Europe des Citoyens un ensemble de mesures concrètes : liberté de circulation des personnes, des biens et des services, équivalence des diplômes et libre établissement, mais aussi quelques initiatives stimulantes dont j'aimerais vous entretenir.

4) Nous devrions ensuite examiner l'état de la négociation sur le renouvellement de la Convention de Lomé, et confirmer nos instructions en vue d'une conclusion satisfaisante et rapide.

5) J'en viens enfin à ce qui pourrait être le thème dominant de ce Conseil Européen : le renforcement de l'union européenne. Le moment est en effet venu de donner une impulsion nouvelle à la construction de l'Europe et d'ouvrir, à cet effet, un débat sur les moyens d'y parvenir. Si l'on met à part la question du Président de la future commission, nos discussions se concentreraient autour de sujets tels que la confirmation des progrès accomplis récemment dans la pratique du vote, conformément au traité, la création ou le renforcement du Secrétariat pour la coopération politique, etc.

Vous ayant ainsi exposé le cadre de nos travaux, il me semble préférable de ne pas ajouter d'ici le Conseil Européen un projet de "conclusions" qui serait redondant. Je vous proposerai à Fontainebleau, pour clore chacun de ces échanges, un bref projet de conclusion qui pourra être amendé dans la nuit de lundi au vu de vos observations.

J'ai bien conscience qu'il s'agit là d'un ordre du jour particulièrement fourni. Mais cela est dû tout à la fois à la situation internationale, qui nous oblige à réagir, et aux exigences du développement de la Communauté, dont nous sommes collectivement responsables. J'espère que vous voudrez bien apporter votre pleine participation à cette tâche. Il s'agit de tracer ensemble notre avenir commun et, devant nos peuples qui viennent de se prononcer ensemble, d'accomplir notre devoir d'européens.

.../...

Dans l'attente du plaisir de vous accueillir bientôt à Fontainebleau, je vous prie, Madame le Premier Ministre, de croire à l'expression de mes sentiments les meilleurs.

signé : François Mitterrand"./. .

MESSAGE FROM MONSIEUR FRANCOIS MITTERRAND
PRESIDENT OF THE FRENCH REPUBLIC

TO

THE RT. HON. MARGARET THATCHER, M.P.
PRIME MINISTER OF GREAT BRITAIN

Paris, 20 June 1984

"Dear Prime Minister,

We shall be meeting at Fontainebleau for the second Council, to be held in the first six months of 1984. In order to prepare the meeting in the best conditions, I should like, in the light of our conversations, to set out for you the main features.

Since Brussels and following the Stuttgart and Athens Councils, substantial progress has been achieved in Community affairs.

One matter, however, remains in dispute: this is the correction of the budgetary imbalances, failure to settle which is holding up the increase in own resources and is consequently threatening to deprive the Community of the funds that will be necessary when it is enlarged to include Spain and Portugal.

We shall examine this problem at the same time as the problem of the 1984 budget.

But I think that we must now place the development of the Community in the political perspective required in the best interests of Europe and of each of our countries.

1) We must first of all provide for a thoroughgoing discussion on the main international questions: East-West relations, negotiations on disarmament, economic relations, the problems of debt and aid to the third world and subjects of current interest (the Near and Middle East, Central America, Southern Africa, or any other question that any of us may wish to raise).

2) We could take stock of Community policies and emphasise the necessity of confirming some new directions, particularly on the environment, "social space", culture and research.

3) It would be desirable to collect together under the general theme of Citizens' Europe a unified complex of concrete measures: free movement of persons, goods and services, the equivalence of diplomas and freedom of establishment, but also some stimulating initiatives about which I would like to speak to you.

4) We should, next, examine the state of negotiations on the renewal of the Lomé Convention and confirm our instructions with a view to arriving at a satisfactory and rapid conclusion.

5) Finally, I come to what could be the dominant theme of this European Council: the strengthening of European union. The time has in fact come to give a new impetus to the building of Europe and, to this end, to start discussion on ways of achieving it. Setting aside the question of the President of the future Commission, our discussions would be concentrated around such subjects as the confirmation of progress achieved recently in voting practice, in accordance with the Treaty, the establishment or strengthening of the Secretariat for Political Cooperation, etc.

Having thus set out for you the general outlines within which we will be working, it seems to be preferable not to add, before the European Council takes place, draft "conclusions" which would be superfluous. I will propose to you at Fontainebleau, to close each of these exchanges, a brief draft conclusion that can be amended on Monday night having regard to your observations.

I am well aware that this is a particularly full agenda. But this is due both to the international situation which calls for a reaction from us and to the demands made by the development of the Community for which we are collectively responsible. I hope that you will be willing to participate fully in this task. It is a question of planning together our common future and fulfilling our duty as Europeans to our peoples who have just expressed their collective opinions.

I look forward to the pleasure of receiving you soon at Fontainebleau.

/Complimentary close/

signed: François Mitterrand"

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PRIME MINISTER

Preparation for the European Council

Meeting of Ministers 4-5 p.m. Purpose to agree the line for Fontainebleau on the UK Budget problem. Basis for discussion is Cabinet Office paper within. Cabinet Office briefing sets out main issues. Should have Mitterrand's letter about the handling of the Council by tomorrow.

Two action points:

- (i) There must be a system whether one with a threshold as discussed hitherto or one based on a straight percentage of the VAT share/expenditure share gap. If the latter, we shall need to be armed for precise modifications to the existing text on the system.
- (ii) Need to have precise line on how to handle the German problem. Ideal is a system with a high limit for Germany. If not attainable, and there has to be a refund for Germany, we must work out way to minimise our contribution to it.

Two more general points you may wish to raise at the meeting:

- (i) How to present publicly a settlement reached on/about a notional figure of 1125 or a 70 per cent+ straight refund;
- (ii) Tactics to pursue on other agenda items if there is no agreement on our problem.

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/Normal

Normal briefing meeting follows immediately after, from 5-6 p.m. Voluminous briefs attached. Since budget questions will be dealt with in Ministerial meeting, subsequent briefing should focus on other briefs notably:

3. Future of Europe.

Refer back to off. Council

9. ✓ VAT Compensation for German Farmers.

Italy - work.

12. Political Cooperation.

*{ Arch/15 read }
50 pages
Gpms.*

*all of products
120 million
Cash subsidy*

✓ 13. The Commission.

✓ 15. Social Affairs (including working time).

*Revised by
16 million*

✓ 17. Lomé.

*Revised
approved.*

to for a year.

*France
FRG
Italy } 2*

C D P

CHARLES POWELL

*David
Pinderkopf*

20 June, 1984

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[FRAME GENERAL]

FM FCO 200857Z JUN 84

TO IMMEDIATE ATHENS

TELEGRAM NUMBER 224 OF 20 JUNE

AND TO IMMEDIATE OTHER EC POSTS

AND TO IMMEDIATE UKREP BRUSSELS

REPORT OF THE HOUSE OF COMMONS FOREIGN AFFAIRS

COMMITTEE: FONTAINEBLEAU SUMMIT

1. A REPORT BY THE HOUSE OF COMMONS FOREIGN AFFAIRS COMMITTEE ON THE FORTHCOMING FONTAINEBLEAU SUMMIT WILL BE PUBLISHED AT 1200Z TODAY (20 JUNE).
2. THE REPORT FOLLOWS THE EVIDENCE WHICH I GAVE TO THE COMMITTEE ON 2 APRIL AND THEIR VISIT TO PARIS, BONN AND ROME IN MAY. COPIES OF THE REPORT HAVE BEEN SENT DIRECT BY THE COMMITTEE TO THOSE ON WHOM THEY CALLED IN THE THREE CAPITALS. WE ARE SENDING COPIES BY BAG TO YOU AND OTHER POSTS.
3. YOU SHOULD MAKE SURE THAT COPIES ARE HANDED OVER TO YOUR USUAL CONTACTS ON COMMUNITY ISSUES. YOU SHOULD DRAW PARTICULAR ATTENTION TO THE PASSAGES IN THE REPORT WHICH POINT OUT THE EXTENT OF THE CONCESSIONS ALREADY MADE BY THE UNITED KINGDOM AND THE COMMITTEE'S VIEW THAT IT WOULD UNDOUBTEDLY ASSIST THE PROCESS OF REACHING A FINAL SETTLEMENT IF OTHER MEMBER STATES WERE TO RECOGNISE HMG'S FLEXIBLE APPROACH, THE EXTENT OF ITS CONCESSIONS AND ITS EVIDENT COMMITMENT TO THE COMMUNITY.

BACKGROUND

4. MAIN POINTS IN THE REPORT ARE AS FOLLOWS:
(I) ALL THE ELEMENTS CURRENTLY UNDER NEGOTIATION IN THE POST-STUTTGART NEGOTIATIONS FORM A PACKAGE. THE ISSUES SHOULD NOT BE DECOUPLED (PARAGRAPH 9).

RESTRICTED

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(II) ANY MECHANISM ALLOWING FOR AUTOMATIC INCREASES IN THE OWN RESOURCES CEILING WITHOUT REFERENCE TO NATIONAL PARLIAMENTS WOULD BE UNACCEPTABLE TO THE HOUSE OF COMMONS (PARAGRAPH 16).

(III) EVEN IF AGREEMENT ON AN INCREASE IN OWN RESOURCES IS REACHED AT FONTAINEBLEAU, SOME FORM OF BRIDGING FINANCE WILL BE NEEDED IF UK REFUNDS ARE TO BE PAID (PARAGRAPH 17).

(IV) CONTROL OVER THE GROWTH OF THE CAP, AND THE GENERAL TIGHTENING OF BUDGETARY DISCIPLINE, ARE VITAL. THE EFFECTIVENESS OF BUDGET DISCIPLINE WILL DEPEND UPON THE EXTENT TO WHICH ANY ARRANGEMENTS ARE ENSHRINED IN LEGISLATIVE FORM (PARAGRAPHS 24 AND 25).

(V) THE ISSUE OF BUDGETARY IMBALANCES TRANSCENDS THE PARTICULAR PROBLEMS OF THE UNITED KINGDOM AND HAS BECOME A QUESTION OF THE CRITICAL CONCERN OF THE WHOLE COMMUNITY (PARAGRAPH 33)

(VI) CONTRARY TO THE IMPRESSION GIVEN BY PRESS REPORTS, BOTH THE UK AND OTHER MEMBER STATES HAVE MADE SIGNIFICANT CONCESSIONS: THE UK BY ACCEPTING THE VAT SHARE/EXPENDITURE GAP: THE OTHERS BY ACCEPTING ONLY ONE MORE AD HOC YEAR (PARAGRAPHS 36 TO 37)

(VII) OTHER COMMUNITY POLITICIANS SHOULD RECOGNISE THAT HMG HAS MOVED AWAY FROM THE POSITION ADOPTED IN 1979 AND NOW WISHES TO SECURE MERELY 'SOME RELATIVELY CONTINUOUS AND REASONABLY FAIR CONCLUSION' (PARAGRAPH 38)

(VIII) THE UK'S ATTITUDE TO THE NOTION OF EUROPEAN UNION GIVES LITTLE EVIDENCE THAT THE INCLUSION OF THIS ITEM ON THE FONTAINEBLEAU AGENDA WILL HELP TO DEFUSE THE BUDGET NEGOTIATIONS (PARAGRAPH 42).

(IX) THE COMMITTEE'S TALKS IN PARIS, BONN AND ROME SHOWED A DESIRE TO SETTLE THE ISSUE BUT ALSO A GOOD DEAL OF FRUSTRATION AND EXASPERATION WITH THE UNITED KINGDOM. THE FRENCH GOVERNMENT SHOWED A DESIRE TO BRIDGE THE GAP BUT GAVE NO INKLING OF HOW IT

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SHOULD BE DONE: THE GERMAN ATTITUDE IS AMBIVALENT: THE ITALIANS HAVE LITTLE SYMPATHY WITH OUR NEGOTIATED STANCE BUT FEAR THE PROSPECT OF A GROWING BONN/PARIS AXIS (PARAGRAPHS 47 TO 57)

(X) OTHER COMMUNITY GOVERNMENTS SHOULD RECOGNISE HMG'S FLEXIBLE APPROACH, THE EXTENT OF ITS CONCESSIONS AND THE EVIDENCE OF ITS COMMITMENT TO THE COMMUNITY (PARAGRAPH 58).

(XI) THE UK SHOULD NOT SACRIFICE POTENTIALLY MORE IMPORTANT BUDGETARY MATTERS (BUDGET DISCIPLINE ETC) IN THE INTERESTS OF A POPULAR SETTLEMENT ON THE REBATES ISSUE (PARAGRAPH 59).

(XII) THE GROUND SHOULD BE PREPARED FOR THE POSSIBILITY OF FURTHER DISAGREEMENT AT FONTAINEBLEAU WITH A VIEW TO MAKING IT CLEAR THAT THIS IS NOT A LAST CHANCE AND THAT THE NEGOTIATIONS SHOULD CONTINUE (PARAGRAPH 62).

(XIII) THE EUROPEAN COUNCIL DOES NOT HAVE THE SAME LEGISLATIVE ROLE AS OTHER COMMUNITY INSTITUTIONS. IT SHOULD FOCUS MORE ON LONG TERM POLICY MATTERS AND SHOULD NOT UNDERMINE THE DECISION MAKING ROLE OF THE COUNCIL OF MINISTERS (PARAGRAPHS 64 TO 68).

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EUROPEAN COUNCIL: FRENCH APPROACH

SUMMARY

1. FRENCH ACTIVITY TO PREPARE FOR COUNCIL HAS PROLIFERATED IN THE PAST FEW DAYS. VARIOUS, APPARENTLY UNCOORDINATED, IDEAS FOR SETTLING THE BUDGET IMBALANCES ISSUE ARE IN CIRCULATION. THE SCENE CHANGES FROM DAY TO DAY AND AS USUAL THERE IS NO FIRM INDICATION OF MITTERRAND'S PREFERENCES, EVEN SUPPOSING THAT HE HAS MADE UP HIS MIND.

DETAIL

2. MITTERRAND, CHEYSSON AND DUMAS HAVE ENGAGED IN A FLURRY OF ACTIVITY TO PREPARE FOR THE COUNCIL AS THE DATE DRAWS NEAR. THE EMERGENCE OF APPARENTLY COMPETING AND UNCOORDINATED IDEAS FOR RESOLVING THE ISSUE OF BUDGET IMBALANCES SERVES TO SHOW THE SMALLER COUNTRIES THAT THE PRESIDENCY IS BUSILY DOING ITS JOB. IT COULD ALSO OWE SOMETHING TO A COMPLEX GAME PLAN, BUT ON PAST FORM IS MORE LIKELY TO REFLECT INDIVIDUAL ENTERPRISE BY DIFFERENT PARTS OF THE GOVERNMENT MACHINE, WITH ELYSEE ADVIERS AND DUMAS AND HIS OFFICIALS WORKING SEPARATELY AND EVEN COMPETITIVELY. BY DESIGN OR ACCIDENT, THIS MAY RESULT IN THE BREAKING DOWN OF FIXED POSITIONS ADOPTED BY DIFFERENT PARTIES TO THE NEGOTIATION, ALLOWING GREATER ROOM FOR MANOEUVRE AT FONTAINEBLEAU.

3. MITTERRAND LEFT FOR MOSCOW TODAY WITHOUT HAVING VISIBLY IMPOSED HIS OWN IMPRINT ON THE PREPARATION OF THE BUDGET ISSUE. HIS LAST MAJOR EFFORT ON COMMUNITY AFFAIRS WAS HIS SPEECH TO THE EUROPEAN PARLIAMENT AND HE MAY STILL BE LIVING OFF THAT INVIGORATING DRAUGHT OF RHETORIC. IF SO, HE HAS NOT SUCCEEDED IN CARRYING PUBLIC OPINION WITH HIM. MORE THAN BEFORE PREVIOUS SUMMITS, THE FRENCH PRESS HAS ADOPTED A SOBER AND SCEPTICAL TONE WITH REGARD TO MITTERRAND'S RHETORIC, THE FRENCH GOVERNMENT'S PENCHANT FOR 'GREAT EUROPEAN PROJECTS', THE SOLIDITY OF THE FRONT OF THE NINE AND THE AMOUNT OF SUBSTANCE IN THE SUPPOSEDLY REVIVED BONN-PARIS AXIS.

4. THE ASSUMED AIR OF NONCHALANCE ABOUT THE NEED FOR A QUICK SETTLEMENT OF THE BUDGET QUESTION ALSO LOOKS RATHER THIN TO THE MORE INTELLIGENT COMMENTATORS HERE.

5. MITTERRAND IS ENOUGH OF A REALIST NOT TO BELIEVE ALL HIS OWN GOVERNMENT PROPAGANDA AND I WOULD EXPECT HIM TO WORK FOR A SETTLEMENT OF THE BUDGET ISSUES AT FONTAINEBLEAU. ACCORDING TO THE DUTCH EMBASSY, HE AGREED WITH LUBBERS, WHEN THEY MET TODAY, THAT IT WAS FOR THE UK TO MAKE THE FIRST MOVE TOWARDS COMPROMISE ON A REFUND SYSTEM BUT THAT EVEN THEN IT WOULD BE DIFFICULT TO SETTLE ON A FIGURE, GIVEN THE NEED TO PRODUCE SOMETHING WHICH COULD BE PRESENTED BY ALL SIDES AS A SUCCESS. THEY DISCUSSED, IN VAGUE TERMS, THE POSSIBILITY OF PROPOSING THAT THE REFUND BE CALCULATED AS A STRAIGHT PERCENTAGE, IN PLACE OF THE SYSTEM OUTLINED IN THE DRAFT DECLARATION OF THE BRUSSELS COUNCIL. THE DIRECTOR OF DUMAS' CABINET TOLD US EARLIER TODAY THAT A STRAIGHT PERCENTAGE WOULD HAVE TO BE APPLIED ONLY ABOVE A FRANCHISE. (PERRIN DE BRICHAMBAUT ADDED THAT FRENCH OFFICIALS AND PERHAPS DUMAS HIMSELF WOULD BE AVAILABLE IF WE WISHED TO PURSUE CONTACTS BETWEEN NOW AND FONTAINEBLEAU).

6. DESPITE THE PRACTICAL PROBLEMS OF GIVING SUBSTANCE TO THE LOFTY CONCEPTS OF EUROPEAN UNION, MITTERRAND WILL WISH TO KEEP THIS THEME IN PLAY, AT LEAST IN PART IN THE HOPE THAT IT WILL IMPRESS ON US THE DANGER OF STANDING OUT AGAINST THE NINE AND SLIPPING INTO PROGRESSIVELY DEEPER ISOLATION.

7. MITTERRAND EVIDENTLY AIMS TO KEEP UP HIS GAME OF PSYCHOLOGICAL WARFARE RIGHT UP TO AND INDEED AT THE EUROPEAN COUNCIL, COUNTING ON HIS CONDUCT OF THE CHAIR TO MARSHALL THE SOMEWHAT UNRULY FLOCK OF THE NINE AND IMPOSE A SOLUTION IF ONE SEEMS TO BE WITHIN REACH. IT HAS BEEN AND REMAINS A FAIRLY HIGH RISK STRATEGY. UP TILL NOW IT HAS SUITED US TO APPLAUD THE FRENCH PRESIDENCY AND TO ENDORSE MITTERRAND'S CLAIMS TO HAVE SOLVED ALL THE OUTSTANDING ISSUES BUT ONE. BUT THE FACT IS THAT IF THAT ONE IS NOT SOLVED, THE FRENCH PRESIDENCY WILL HAVE BROUGHT THE COMMUNITY TO THE EDGE OF DISASTER AND BEQUEATHED AN AWFUL LEGACY TO ITS SUCCESSOR. IT MAY BE NECESSARY FOR THIS THEME TO BEGIN TO EMERGE IN THE NEXT FEW DAYS ALONGSIDE THE PANEGYRICS.

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PREPARATION FOR EUROPEAN COUNCIL : BUDGETARY IMBALANCES.

1. AS I HAD AGREED WITH HIM IN LUXEMBOURG I SPOKE TODAY TO SCHAUB, WHO ACCOMPANIED THORN ON HIS VISIT TO PARIS YESTERDAY. SCHAUB HAD NOT BEEN PRESENT AT THE MEETING BETWEEN THORN AND MITTERRAND, AND IT WAS NOT CLEAR WHETHER HE WAS ACCURATELY REPORTING PRESIDENCY INTENTIONS OR A VERSION OF WHAT THE COMMISSION MIGHT WISH TO PROPOSE GIVEN THE OPPORTUNITY. THE PROPOSAL SCHAUB EXPECTS IS A SCHEME SUCH AS THAT WHICH DUMAS MENTIONED TO YOU (PERCENTAGE REFUND OF THE WHOLE OF THE VAT SHARE/EXPENDITURE SHARE GAP) BUT EXPLICITLY FOR THE U K ONLY AND WITH THE GERMANS BEING LET OFF ONE-THIRD OF THEIR NORMAL CONTRIBUTION TO U K COMPENSATION. I EXPRESSED CONSIDERABLE SURPRISE AT THIS AND ADVISED STRONGLY AGAINST ANY SUCH APPROACH. WHAT SCHAUB HAD MENTIONED WOULD NOT BE A COMMUNITY SYSTEM. THE GERMAN ASPECT OF IT WOULD BE THOROUGHLY UNATTRACTIVE TO THE OTHER MEMBER STATES AS WELL AS TO US. SCHAUB'S EXPLANATION WAS THAT THE GERMANS WOULD INSIST EITHER ON IT OR ON A THRESHOLD WHICH ON 1983 FIGURES WOULD GIVE A 120 MECU REFUND. THE LATTER WAS WORSE.

2. ACCORDING TO LEVER (TUGENDHAT CABINET) THE MESSAGE THORN CAME BACK WITH WAS THAT THE FRENCH WERE MAKING A GENUINE EFFORT TO REACH AGREEMENT, BUT THAT THEY WERE PUZZLED BY WHAT APPEARED TO BE UNDUE BRITISH CONCERN FOR THE GERMAN PROBLEM. (LEVER HIMSELF THOUGHT WE HAD NOW MADE OUR POINT AND SHOULD NOT WORRY ABOUT PAYMENT OF 120 MECUS TO THE GERMANS. WE EXPLAINED THE REASONS WHY THE GERMAN PROBLEM REMAINED IMPORTANT). LEVER SAID THE SIGNS WERE THAT THE PRESIDENCY'S IDEAS WERE CLOSE TO THOSE OF THE COMMISSION. HE WAS THEREFORE UNABLE TO SAY WHETHER THE COMMISSION INTENDED TO DEVELOP ITS OWN PROPOSAL FOR POSSIBLE USE AT FONTAINEBLEAU.

FCO ADVANCE TO:
 FCO - PS TICKELL RENWICK WALL
 CAB - WILLIAMSON STAPLETON DURIE
 TSY - UNWIN

ADVANCED AS REQUESTED

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June 19, 1983

SOLEMN DECLARATION
ON EUROPEAN UNION

P R E A M B L E

The Heads of State or Government of the Member States of the European Communities, meeting within the European Council,

resolved to continue the work begun on the basis of the Treaties of Paris and Rome and to create a united Europe, which is more than ever necessary in order to meet the dangers of the world situation, capable of assuming the responsibilities incumbent on it by virtue of its political role, its economic potential and its manifold links with other peoples,

considering that the European idea, the results achieved in the fields of economic integration and political co-operation, and the need for new developments correspond to the wishes of the democratic peoples of Europe, for whom the European Parliament, elected by universal suffrage, is an indispensable means of expression,

determined to work together to promote democracy on the basis of the fundamental rights recognized in the constitutions and laws of the Member States, in the European Convention for the Protection of Human Rights and the European Social Charter, notably freedom, equality and social justice,

convinced that, in order to resolve the serious economic problems facing the Member States, the Community must strengthen its cohesion, regain its dynamism and intensify its action in areas hitherto insufficiently explored,

resolved to accord a high priority to the Community's social progress and in particular to the problem of employment by the development of a European social policy,

convinced that, by speaking with a single voice in foreign policy, including political aspects of security, Europe can contribute to the preservation of peace,

recalling their decisions taken in Paris on 21 October 1972 and 10 December 1974, the Document on the European Identity of 14 December 1973 and the statement made by the European Council in The Hague on 30 November 1976 concerning the progressive construction of European Union,

determined to achieve a comprehensive and coherent common political approach and reaffirming their will to transform the whole complex of relations between their States into a European Union,

have adopted the following:

1. OBJECTIVES

- 1.1. The Heads of State or Government, on the basis of an awareness of a common destiny and the wish to affirm the European identity, confirm their commitment to progress towards an ever closer union among the peoples and Member States of the European Community.
- 1.2. The Heads of State or Government reaffirm the Declaration on Democracy adopted by the European Council on 8 April 1978 which stated that respect for and maintenance of representative democracy and human rights in each Member State are essential elements of membership of the European Communities.
- 1.3. In order to achieve ever increasing solidarity and joint action, the construction of Europe must be more clearly oriented towards its general political objectives, more efficient decision-making procedures, greater coherence and close co-ordination between the different branches of activity, and the search for common policies in all areas of common interest, both within the Community and in relation to third countries.
- 1.4. Desiring to consolidate the progress already made towards European Union in both the economic and political fields, the Heads of State or Government reaffirm the following objectives:

- 1.4.1. to strengthen and continue the development of the Communities, which are the nucleus of European Union, by reinforcing existing policies and elaborating new policies within the framework of the Treaties of Paris and Rome;
- 1.4.2. (*) to strengthen and develop European Political Co-operation through the elaboration and adoption of joint positions and joint action, on the basis of intensified consultations, in the area of foreign policy, including the co-ordination of the positions of Member States on the political and economic aspects of security, so as to promote and facilitate the progressive development of such positions and actions in a growing number of foreign policy fields.
- 1.4.3. to promote, to the extent that these activities cannot be carried out within the framework of the Treaties:
- closer co-operation on cultural matters, in order to affirm the awareness of a common cultural heritage as an element in the European identity;
 - approximation of certain areas of the legislation of the Member States in order to facilitate relationships between their nationals;
 - a common analysis and concerted action to deal with international problems of law and order, serious acts of violence, organized international crime and international lawlessness generally.

2. INSTITUTIONS

The Heads of State or Government emphasize the importance of greater coherence and close co-ordination between the existing structures of the European Communities and European Political Co-operation at all levels so that comprehensive and consistent action can be taken to achieve European Union.

Matters within the scope of the European Communities are governed by provisions and procedures laid down in or pursuant to the Treaties of Paris and Rome and in agreements supplementing them. In matters of Political Co-operation, procedures which were agreed on in the Luxembourg (1970), Copenhagen (1973) and London (1981) reports will apply, together with other procedures to be agreed on if necessary.

2.1. THE EUROPEAN COUNCIL

2.1.1. The European Council brings together the Heads of State or Government and the President of the Commission assisted by the Foreign Ministers of the Member States and a member of the Commission.

2.1.2. In the perspective of European Union, the European Council

- provides a general political impetus to the construction of Europe;

- defines approaches to further the construction of Europe and issues general political guidelines for the European Communities and European Political Co-operation;

- deliberates upon matters concerning European Union in its different aspects with due regard to consistency among them;
- initiates co-operation in new areas of activity;
- solemnly expresses the common position in questions of external relations.

2.1.3. When the European Council acts in matters within the scope of the European Communities, it does so in its capacity as the Council within the meaning of the Treaties.

2.1.4. The European Council will address a report to the European Parliament after each of its meetings. This report will be presented at least once during each Presidency by the President of the European Council.

The European Council will also address a written annual report to the European Parliament on progress towards European Union.

In the debates to which these reports give rise, the European Council will normally be represented by its President or one of its members.

2.2. THE COUNCIL AND ITS MEMBERS

- 2.2.1. The consistency and continuity of the work needed for the further construction of European Union as well as the preparation of meetings of the European Council are the responsibility of the Council (General Affairs) and its members.

With a view to bringing the institutional apparatus of the Community and that of Political Co-operation closer together, the Council deals with matters for which it is competent under the Treaties in accordance with the procedures laid down by the latter, and its members will deal also, in accordance with the appropriate procedures, with all other areas of European Union, particularly matters coming within the scope of Political Co-operation.

The Member States will arrange their representation as provided for in their respective constitutions.

- 2.2.2. The application of the decision-making procedures laid down in the Treaties of Paris and Rome is of vital importance in order to improve the European Communities' capacity to act.

Within the Council every possible means of facilitating the decision-making process will be used, including, in cases where unanimity is required, the possibility of abstaining from voting.

2.2.3. To promote the objective of a Europe speaking with a single voice and acting in common in the field of foreign policy, the Governments of the Member States will make a constant effort to increase the effectiveness of Political Co-operation and will seek, in particular, to facilitate the decision-making process, in order to reach common positions more rapidly.

They recently adopted new arrangements in the London report of 13 October 1981.

In the light of experience they will continue in this direction, in particular by:

- strengthening the Presidency's powers of initiative, of co-ordination and of representation in relations with third countries;
- appropriately strengthening operational support for successive Presidencies, corresponding to the increasing tasks which they have to perform.

2.3. THE PARLIAMENT

2.3.1. The Assembly of the European Communities has an essential role to play in the development of European Union.

2.3.2. The European Parliament debates all matters relating to European Union, including European Political Co-operation. In matters relating to the European Communities, it deliberates in accordance with the provisions and procedures laid down in the Treaties establishing the European Communities and in agreements supplementing them.

2.3.3. In addition to the consultation procedures provided for in the Treaties, the Council, its members and the Commission will, in keeping with their respective powers, respond to:

- oral or written questions from Parliament;
- resolutions concerning matters of major importance and general concern, on which Parliament seeks their comments.

2.3.4. The Presidency will address the European Parliament at the beginning of its term of office and present its programme. It will report to the European Parliament at the end of its term on the progress achieved.

The Presidency keeps the European Parliament regularly informed through the Political Affairs Committee of the subjects of foreign policy examined in the context of European Political Co-operation.

Once a year the Presidency reports to the European Parliament in plenary session on progress in the field of Political Co-operation.

2.3.5. (*) Before the appointment of the President of the Commission, the President of the Representatives of the Governments of the Member States seeks the opinion of the enlarged Bureau of the European Parliament.

After the appointment of the members of the Commission by the Governments of the Member States, the Commission presents its programme to the European Parliament to debate and to vote on that programme.

2.3.6. (*) The Council will enter into talks with the European Parliament and the Commission with the aim, within the framework of a new agreement, of improving and extending the scope of the conciliation procedure provided for in the Joint Declaration of 4 March 1975.

2.3.7. In addition to the consultations provided for in the Treaties with respect to certain international agreements, the opinion of the European Parliament will be sought before:

- the conclusion of other significant international agreements by the Community,
- the accession of a State to the European Community.

The existing procedures for providing the European Parliament with confidential and unofficial information on progress in negotiations will be extended, taking into account the requirements of urgency, to all significant international agreements concluded by the Communities.

2.4.

THE COMMISSION

The Heads of State or Government underline the particular importance of the Commission as guardian of the Treaties of Paris and Rome and as a driving force in the process of European integration. They confirm the value of making more frequent use of the possibility of delegating powers to the Commission within the framework of the Treaties. In addition to the tasks and powers laid down in those Treaties, the Commission is fully associated with the work of European political co-operation and, where appropriate, with other activities within the framework of European Union.

2.5.

THE COURT OF JUSTICE

The Court of Justice of the European Communities has an essential role to play in progress towards European Union, by securing compliance with, and development of, Community law. Taking account of the respective constitutional provisions in their States, the Heads of State or Government agree to consider, on a case-by-case basis, the inclusion, as appropriate, in international conventions between Member States, of a clause conferring on the Court of Justice appropriate jurisdiction with regard to the interpretation of the texts.

3. SCOPE

3.1. EUROPEAN COMMUNITIES

The Heads of State or Government emphasize, in order to give renewed impetus to the development of Community policies on a broad front, the importance of the following policies:

3.1.1. An overall economic strategy in the Community to combat unemployment and inflation and to promote convergence of the state of economic development of the Member States. Priority should be given to encouraging productive investment and raising competitiveness as a basis for creating durable jobs, bringing about sustained economic growth and reducing unemployment. In this context, effective action in the social field to alleviate unemployment should be taken at both Community and national levels in particular by means of specific action on behalf of young people (*) and by improved harmonization of social security systems.

3.1.2. More effective co-ordination of the national economic policies, which is required for the achievement of the Community's overall objectives, in order to ensure that the main economic and sectoral objectives of the Member States are consistent with the maintenance and strengthening of the Community and with the object of consolidating the European Monetary System.

- 3.1.3. Strengthening of the European Monetary System, which is helping to consolidate an area of monetary stability in Europe and to create a more stable international economic environment, as a key element in progress towards Economic and Monetary Union and the creation of a European Monetary Fund.
- 3.1.4. Definition of Community instruments and mechanisms which will permit action geared to the situation and specific needs of the least prosperous Member States in an effort to tackle their structural problems and thereby to ensure the harmonious development of the Community.
- 3.1.5. Given the importance of the Community's external relations, strengthening of the common commercial policy and development of its external economic policy on the basis of common positions; the Community will, in this way, give effect to its special responsibility as the principal world trader and to its commitment to a free and open trading system.

In this context, improvement and co-ordination of national and Community development co-operation policies are needed in order to reflect more fully the needs of the developing countries and the interdependence between them and Europe, and so that Europe plays a stronger and more stimulating role in relations between the industrialized and developing countries.

- 3.1.6. Completion of the internal market in accordance with the Treaties, in particular the removal of the remaining obstacles to the free movement of goods, capital and services, as well as the further development of a common transport policy.
- 3.1.7. Continued development of the common agricultural policy in harmony with other policies, respecting its objectives as defined in the Treaty and the principles of unity of the market, Community preference and financial solidarity, and taking into account the need to ensure a fair standard of living for the agricultural community and the need to achieve a better market equilibrium in some sectors. The problems of less favoured agricultural regions, including certain Mediterranean areas the development of which is heavily dependent on agriculture, merit special attention.
- 3.1.8. The development of an industrial strategy at Community level in order to strengthen industry, make it competitive and create productive jobs in Europe, in particular by encouraging investment and innovation. In order to provide the Community with the means for vigorous development in the long term, co-operation between enterprises in advanced technologies will be strengthened by the establishment of projects of common interest.
- Efforts made by industry and Governments in the areas of energy and research will be complemented by co-ordination and appropriate actions at Community level.
- 3.1.9. Development of the regional and social policies of the Communities, which implies in particular the transfer of resources to less prosperous regions, so that all Community policies and instruments can play their full role and promote convergence and balanced development.

FOREIGN POLICY

In order to cope with the increasing problems of international politics, the necessary reinforcement of European Political Co-operation must be ensured, in particular by the following measures:

- intensified consultations with a view to permitting timely joint action on all major foreign policy questions of interest to the Ten as a whole;
- prior consultation with the other Member States in advance of the adoption of final positions on these questions. The Heads of State or Government underline their undertaking that each Member State will take full account of the positions of its partners and give due weight to the adoption and implementation of common European positions when working out national positions and taking national action;
- development and extension of the practice by which the views of the Ten are defined and consolidated in the form of common positions which then constitute a central point of reference for Member States' policies;
- progressive development and definition of common principles and objectives as well as the identification of common interests in order to strengthen the possibilities of joint action in the field of foreign policy;

- co-ordination of positions of Member States on the political and economic aspects of security;
- increased contacts with third countries in order to give the Ten greater weight as an interlocutor in the foreign policy field;
- closer co-operation in diplomatic and administrative matters between the missions of the Ten in third countries;
- the search for common positions at major international conferences attended by one or more of the Ten and covering questions dealt with in Political Co-operation;
- increasing recognition of the contribution which the European Parliament makes to the development of a co-ordinated foreign policy of the Ten.

3.3. CULTURAL CO-OPERATION

With a view to complementing Community action and stressing that, in consideration of the membership of their States of the Council of Europe, they maintain their firm support for and involvement in its cultural activities, the Heads of State or Government agree to promote, encourage or facilitate the following, taking account of respective constitutional provisions:

- development of the activities of the European Foundation and the European University Institute in Florence;

- closer co-operation between establishments of higher education, including exchanges of teachers and students;
- intensified exchanges of experience, particularly among young people, and development of the teaching of the languages of the Member States of the Community;
- improving the level of knowledge about other Member States of the Community and of information on Europe's history and culture so as to promote a European awareness;
- examination of the advisability of undertaking joint action to protect, promote and safeguard the cultural heritage;
- examination of the possibility of promoting joint activities in the dissemination of culture, in particular as regards audio-visual methods;
- more extensive contacts between writers and artists of the Member States and wider dissemination of their works both inside and outside the Community;
- closer co-ordination of cultural activities in third countries, within the framework of Political Co-operation.

3.4. APPROXIMATION OF LAWS

3.4.1. Approximation of laws in areas within the competence of the European Communities will be pursued and intensified through effective use of the measures provided for in the Treaties. In this context special attention should be given to further approximation in the field of the protection of industrial and commercial property, consumer protection and, whenever necessary, in the field of the law relating to companies.

3.4.2. With a view to complementing the approximation of laws within the European Communities, and having full regard, in particular, to the work of the Council of Europe, the Member States will endeavour to approximate their laws in other areas by having recourse to the appropriate instruments, including international conventions. A special effort will be made to implement or supplement without delay international conventions already negotiated between Member States in the Community framework, and notably those provided for by the Treaties.

3.4.3. Among new activities which can be conducive to the attainment of European Union, the following deserve special attention:

- the introduction of legal instruments which can strengthen co-operation among the judicial authorities of the Member States, notably in civil and commercial matters, and which can thereby make the administration of justice more efficient and less cumbersome;

- *) - co-operation in the area of the suppression of infringements of Community law;

- *) - identification of areas of criminal and procedural law in which co-operation between Member States might be desirable.

4. FINAL PROVISIONS

- 4.1. The Heads of State or Government stress the link between membership of the European Communities and participation in the activities described above.
- 4.2. European Union is being achieved by deepening and broadening the scope of European activities so that they coherently cover, albeit on a variety of legal bases, a growing proportion of Member States' mutual relations and of their external relations.
- 4.3. *) The Heads of State or Government will subject this Declaration to a general review as soon as the progress achieved towards European unification justifies such action, but not later than five years from signature of the Declaration.

In the light of the results of this review they will decide whether the progress achieved should be incorporated in a Treaty on European Union.

The Opinion of the European Parliament will be sought on this subject.

*) Danish reservations on paragraphs I.4.2., 2.3.5., 2.3.6., 3.I.I., 3.4.3. and 4.3.

cf. Greek declarations in the minutes with reference to paragraphs 2.2.2 and 2.2.3.

(Members of both Houses should be aware that other declarations on the text, including the United Kingdom declaration on paragraph 2.2.2, are contained in the list of declarations for the minutes made on the occasion of the signature of the 'Solemn Declaration on European Union' which has also been laid in the Library.)

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The Opinion of the European Parliament will be sought on this subject.

*) Danish reservations on paragraphs 1.4.2, 2.3.5, 2.3.6, 3.1.1, 3.4.3 and 4.3.

cf. Greek declarations in the minutes with reference to paragraphs 2.2.2 and 2.2.3.

(Members of both Houses of Parliament should be aware that other declarations on the text, including the United Kingdom declaration on paragraph 2.2.2, are contained in the list of declarations for the minutes made on the occasion of the signature of the "Solemn Declaration on European Union" which has also been placed in the Library.)



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OO UKREP BRUSSELS

PP BRUSSELS

PP COPENHAGEN

PP THE HAGUE

PP ROME

PP DUBLIN

PP PARIS

PP BONN

PP ATHENS

PP LISBON

PP MADRID

PP STRASBOURG

GRS 600

CONFIDENTIAL

FROM LUXEMBOURG 191145Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 160 OF 19 JUNE

AND TO IMMEDIATE UKREP BRUSSELS

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN

PARIS BONN ATHENS LISBON MADRID STRASBOURG

INFO SAYING WASHINGTON

FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL LUXEMBOURG 18 JUNE

PREPARATION FOR EUROPEAN COUNCIL

SUMMARY

1. PRESIDENCY ANNOUNCED THEMES FOR DISCUSSION MUCH AS AT COREPER ON 13 JUNE. LITTLE DISCUSSION APART FROM YOUR STATEMENT.

DETAIL

2. CHEYSSON (PRESIDENCY) ANNOUNCED THAT PRESIDENT MITTERRAND WOULD WRITE TO HEADS OF GOVERNMENT WITHIN THE NEXT 48 HOURS EXPLAINING HOW HE INTENDED TO ORGANISE DISCUSSION. FROM THE POST-STUTTGART NEGOTIATION THERE WAS ONLY ONE OUTSTANDING DISPUTED ITEM, BUDGET IMBALANCES, WHICH AFFECTED OTHER QUESTIONS SUCH AS THE INCREASE IN OWN RESOURCES. THERE WOULD NEED TO BE DISCUSSION OF THE 1984 BUDGET, THOUGH NOT IN TERMS OF PRECISE DECISIONS. THE MEETING WOULD HAVE TO DISCUSS EAST-WEST RELATIONS AND DISARMAMENT, SINCE THERE HAD BEEN NO POLITICAL DECLARATIONS FROM THE LAST TWO COUNCILS. ON FOLLOW-UP TO THE LONDON SUMMIT AND WORLD ECONOMIC PROBLEMS, THIRD-WORLD DEBT WAS THE MAIN ISSUE. (COMMENT: HE DID NOT

SIR C TICKELL

MR RENWICK

MR WALL, ECD(1)

HD/ ECD(1) 1237

MR WILLIAMSON

MR STAPLETON

MR DURIE

MISS LAMBERT

CABINET OFFICE

MR UNWIN, TREASURY

MR POWELL, No. 10 D. St.

IMMEDIATE
ADVANCE COPY

SINCE THERE HAD BEEN NO POLITICAL DECLARATIONS FROM THE LAST TWO COUNCILS. ON FOLLOW-UP TO THE LONDON SUMMIT AND WORLD ECONOMIC PROBLEMS, THIRD-WORLD DEBT WAS THE MAIN ISSUE. (COMMENT: HE DID MENTION MIDDLE EAST.)

3. ON THE INTERNAL COMMUNITY FRONT CHEYSSON LISTED ENVIRONMENT, SOCIAL AFFAIRS, RESEARCH, ACP ISSUES, FREE CIRCULATION OF GOODS AND PEOPLE AND FREEDOM OF ESTABLISHMENT, AND INSTITUTIONAL QUESTIONS: WHAT TO OFFER SPAIN AND PORTUGAL IN THE COMMISSION (WHICH WOULD REQUIRE A DECISION ON NUMBER OF COMMISSIONERS AND AT LEAST A FIRST DISCUSSION OF THE NEW PRESIDENT), VOTING, A POCO SECRETARIAT AND THE LONGER TERM PROSPECTS FOR EUROPEAN UNION (DISCUSSION BEING CONFINED TO PROCEDURE). THERE WOULD BE NO DRAFT CONCLUSIONS IN ADVANCE: LANGUAGE WOULD BE TABLED AS SUBJECTS WERE DISCUSSED. SUBJECTS WOULD NOT BE ADDRESSED 'GLOBALLY', ONLY OUTSTANDING ISSUES WITHIN THEM.

4. ANDREOTTI (ITALY) WANTED THE EUROPEAN COUNCIL TO REACH CLEAR CONCLUSIONS ON THE PROCEDURE MEMBER STATES AND PARLIAMENT WOULD ADOPT TO DEAL WITH THE DRAFT TREATY ON EUROPEAN UNION AND TO DISCUSS HOW TO IMPROVE COUNCIL-EP RELATIONS. GENSCHER (FRG) HOPED ENOUGH TIME WOULD BE ALLOWED FOR THE MORE IMMEDIATE ISSUES. VAN EEKELN (NETHERLANDS) REPEATED DUTCH REQUEST FOR DISCUSSION OF ECONOMIC AND SOCIAL SITUATION, AND PANGALOS (GREECE) WARNED PREDICTABLY THAT PAPANDEOU WOULD RAISE IMPS. BARRY (IRELAND) WANTED DISCUSSION OF ENLARGEMENT. TANDEMANS (BELGIUM) MADE HELPFUL REMARKS ABOUT THE NEED FOR A SOLUTION OF BUDGET IMBALANCES. THORN (COMMISSION) WAS WORRIED ABOUT THE 1984 AND 1985 BUDGETS.

5. IN THE ONLY SUBSTANTIAL STATEMENT, YOU LOOKED FORWARD TO DISCUSSING THE FUTURE OF THE COMMUNITY. THE NUMBER OF COMMISSIONERS AND THE IDENTITY OF THE NEW PRESIDENT SHOULD BE SETTLED. ON THE FUTURE SHAPE OF THE COMMUNITY AND IDEAS FOR INSTITUTIONAL CHANGE THERE WAS NOT ONLY MITTERRAND'S SPEECH BUT ALSO THE IDEAS IN THE PAPER THE PRIME MINISTER HAD GIVEN HEADS OF GOVERNMENT. YOU HOPED THAT ANY PRESIDENCY REPORT ON NEW POLICIES WOULD INCLUDE AN AGENDA FOR FUTURE WORK.

6. YOU STRESSED THAT IF A REAL RE-LAUNCH WAS TO BE POSSIBLE THE POST-STUTTGART NEGOTIATION MUST BE COMPLETED ON THE BASIS OF THE TEXTS OF 20 MARCH, WHICH COMPRISED A PACKAGE OF WHICH BUDGETARY IMBALANCES WAS AN INTEGRAL PART. YOU HAD HOPED PROGRESS WOULD BE MADE SOONER, BUT THE EP ELECTIONS HAD MADE THAT DIFFICULT. YOU HOPED THAT A REAL NEGOTIATION COULD GET UNDER WAY DURING THIS COUNCIL. YOU HAD HEARD PEOPLE SAY THERE SHOULD BE NO SYSTEM, THAT THERE SHOULD BE MORE AD HOC COMPENSATION. IT WOULD BE A PROFOUND MISTAKE TO ABANDON THE FRUITS OF A LONG NEGOTIATION ONLY ONE WEEK FROM FONTAINEBLEU. IT WAS CLEAR THAT THERE MUST BE A COMPROMISE: THAT MEANT A SETTLEMENT IN THE 1000 TO 1250 MECUS RANGE FOR THE NOTIONAL FIGURE. A REAL EFFORT SHOULD BE MADE. DISCUSSION OF THE POLITICAL ISSUES CHEYSSON HAD MENTIONED WOULD BE MORE FRUITFUL IF THE BUDGET IMBALANCE ISSUE HAD BEEN SETTLED FIRST.

FCO ADVANCE TO:

FCO - PS TICKELL RENWICK WALL ECD(+)

CAB - WILLIAMSON STAPLETON DURIE LAMBERT

TSY - UNWIN

NO 10 - POWELL

FCO PASS SAVING WASHINGTON

UKREP DIST: H OF C/ HDS OF SECTION FULL

MAUD

note transferred from B/W copy

"Agreed that Sir J Taylor will see Kohl a.s.a.p. CAP 15/6"

CONFIDENTIAL

PRIME MINISTER

EUROPEAN COUNCIL: THE GERMAN PROBLEM

Meeting tomorrow at 10 am. List of those attending attached. Main purpose is to consider how to get Chancellor Kohl to be more active and more helpful over our Budget problem.

Points to consider are:

Has he taken in that you are prepared to move a bit if others are?

Does he recognise the consequences of failure to agree at Fontainebleau for some of his cherished ideas?

Should he be made more starkly aware of the imbalance between what we are doing for him - BAOR, Berlin - and what he is not doing for us?

How to do it? He does not read messages. You do not like telephone calls. Send in Sir J. Taylor with some very pointed instructions?

Other points to discuss:

How to smoke out German intentions on the Presidency of the Commission?

How to bring home to Chancellor Kohl the significance of the paper you gave him on the future of the

/ of the paper

CONFIDENTIAL

Community?

Also take the opportunity of the meeting to raise with Foreign and Commonwealth Secretary and Chancellor the point on the Budget negotiations and the 1984/85 Budget overrun on which you commented yesterday (see attached papers).

C.D.P.

C.D. POWELL

14 June 1984



10 DOWNING STREET

Foreign and Commonwealth Secretary

Chancellor of the Exchequer

Sir M. Butler

Sir J. Taylor

Mr. Williamson

Mr. Unwin

Sir. C. Tickett

D.R.

Euro PPT: Council with CP

~~Caroline~~

PRIME MINISTER

This is to
meeting which you
kindly agreed to
switch to 6.15

Preparation for the European Council *Chorus*

You have found it useful in the past to have
a teach-in with a very limited number of officials
before the normal briefing for a European Council.

It could be fitted in at 3 p.m. on 20 June.
Those attending would be Sir Michael Butler,
Mr. Williamson and Sir Crispin Tickell.

Would you like this?

Yes *mt*

CJP
N Powell.
Confirmed
CP.

13 June, 1984.

14/6.

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

Mr. Williamson

Preparation for European Council of 25-26 June

The Prime Minister has seen your minute Qz.03773 of 12 June to John Coles on the preparation for the European Council. The Prime Minister notes that preparation of a paper on the state of the negotiations and the possible options on the budget inequity and United Kingdom refunds is in hand. She agrees to the proposed Ministerial meeting at 4 p.m. on 21 June, at which Sir Michael Butler would also be present, as well as to a normal briefing meeting immediately after this.

BR-11

eP

13 June, 1984.

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RR MADRID

GR1100

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FM UKREP BRUSSELS 121630Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 2000 12 JUNE

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LISBON MADRID

INFO SAVING BRUSSELS STRASBOURG WASHINGTON

COREPER (AMBASSADORS) : 12 JUNE

PREPARATION FOR EUROPEAN COUNCIL

SUMMARY

1. PRESIDENCY ANNOUNCED LONG LIST OF POSSIBLE SUBJECTS FOR DISCUSSION, GROUPED UNDER THREE HEADINGS: POLITICAL COOPERATION, FUTURE OF COMMUNITY, CURRENT COMMUNITY PROBLEMS. COMMISSION WILL PRODUCE PAPER ON ECONOMIC AND SOCIAL SITUATION AND A DOCUMENT ON IMPLEMENTATION OF NEW POLICIES, PARTICULARLY IN FIELD OF RESEARCH. MITTERRAND WILL WRITE TO MEMBERS OF EUROPEAN COUNCIL SETTING OUT HIS HANDLING PLANS IN SOME DETAIL. NO FIRM PRESIDENCY PLANS YET ON DRAFT CONCLUSIONS.

DETAIL

2. LEPRETTE (PRESIDENCY) GAVE A LONG ACCOUNT OF PRESENT PRESIDENCY THINKING STRESSING ITS TENTATIVE NATURE.

A. THEMES

3. THE FOLLOWING OUTLINE INCORPORATES CLARIFICATION FROM THE SUBSEQUENT DISCUSSION. LEPRETTE SAID THAT NO PRIORITY SHOULD BE READ INTO THE ORDER.

I POLITICAL COOPERATION SUBJECTS

(A) EAST/WEST

(B) SITUATION IN THE GULF

(C) EVALUATION OF THE LONDON SUMMIT

Mr Williams	} Cabinet Office	HD/ECD(I)
Mr Stapleton		HD/ECD(E)
Mr Dene		Ho/Protocol Div
Mr Lambert		PS
Mr Unwin	HM Treasury	PS/Mr Rafter
Mr Powell	No 10 DS	PS/Pus
		Ser C Tichel
		Ser J Bullard
		Mr Penick
		Mr Jenkin
		Mr Wall ECD(I)
		RC. (18)

[Handwritten signature]

(C) EVALUATION OF THE LONDON SUMMIT

II FUTURE OF THE COMMUNITY

(A) NEW COMMISSION AND PRESIDENCY OF THE COMMISSION - RUTTEN (NETHERLANDS) SUGGESTED NEED TO CONCENTRATE ON NUMBER OF COMMISSIONERS AND THE "PROFILE" IF NOT THE ACTUAL NAME OF THE NEW PRESIDENT.

(B) INSTITUTIONAL IDEAS IN MITTERRAND'S SPEECH - COVERING FUNCTIONING OF THE INSTITUTIONS, DECISION-MAKING PROCEDURES, A POSSIBLE POLITICAL SECRETARIAT AND THE NEED FOR A NEW TREATY.

(C) NEW COMMUNITY ACTIVITIES - THIS WOULD NOT BE MERELY A REPETITION OF THE PREVIOUS DISCUSSIONS OF NEW POLICIES, BUT LEPRETTE WAS UNABLE TO GIVE DETAIL.

III CURRENT COMMUNITY PROBLEMS

(A) BUDGETARY IMBALANCES

(B) THE BUDGETARY SHORTFALL

(C) BUDGETARY DISCIPLINE - LEPRETTE WAS UNABLE TO ANSWER MY QUESTION ABOUT WHEN THE REPORT FROM THE ECOFIN COUNCIL WOULD BE AVAILABLE BUT TOOK MY POINT THAT IT WOULD BE USEFUL TO HAVE IT BEFORE THE FOREIGN AFFAIRS COUNCIL SO THAT FOREIGN MINISTERS COULD DECIDE WHETHER THERE WERE ANY NEW POINTS REQUIRING REFERENCE AT THIS STAGE TO THE EUROPEAN COUNCIL.

(D) IMPLEMENTATION OF THE AGRICULTURE PACKAGE - UNDER QUESTIONING LEPRETTE SAID THAT SOME GOVERNMENTS WERE COMPLAINING THAT ALL WAS NOT AS IT SHOULD BE. NOEL (COMMISSION) INDICATED THAT THE COMMISSION HOPED TO GIVE A FIRST RESPONSE TO THE GERMAN COMMUNICATION (ON VAT ALLEVIATION) TO THE AGRICULTURE COUNCIL ON 18/19 JUNE. RUTTEN (NETHERLANDS) WONDERED HOW THE FOREIGN AFFAIRS COUNCIL COULD PROPERLY PREPARE EUROPEAN COUNCIL DISCUSSION IN THE CIRCUMSTANCES.

(E) ENLARGEMENT) -UNDER QUESTIONING LEPRETTE AGREED THAT

(F) NEGOTIATIONS WITH ACP) IT WAS NOT POSSIBLE TO SEE PRECISELY WHAT, IF ANYTHING, THE EUROPEAN COUNCIL COULD CONTRIBUTE ON THESE SUBJECTS UNTIL AFTER THE 18/19 JUNE FOREIGN AFFAIRS COUNCIL.

(G) ECONOMIC AND SOCIAL AFFAIRS - LEPRETTE DID NOT INCLUDE THIS IN HIS ORIGINAL LIST BUT AGREED WITH RUTTEN THAT IT WOULD FEATURE AS A MATTER OF COURSE. NOEL CONFIRMED THAT A COMMISSION PAPER WOULD BE AVAILABLE ON 18 JUNE.

(H) SOCIAL AFFAIRS (WORKING TIME) - RUTTEN REMINDED LEPRETTE OF THE SOCIAL AFFAIRS COUNCIL CONCLUSION, AND THE LATTER AGREED THAT THE QUESTION WOULD NO DOUBT BE PUT TO THE EUROPEAN COUNCIL.

(I) STRUCTURAL FUNDS/IMPS - DIMADIS (GREECE) PREDICATABLY POINTED OUT THAT LEPRETTE HAD OMITTED THIS FROM HIS LIST; THE LATTER REPLIED THAT THERE WAS NOTHING TO NEGOTIATE ABOUT ON THESE MATTERS.

B. PREPARATION

4. LEPRETTE SAID THAT THE PRESIDENCY SET MUCH STORE BY THE FORTH-COMING COMMISSION REPORT ON IMPLEMENTING NEW POLICIES SINCE THE BEGINNING OF THE YEAR. NOEL SAID THAT WORK WAS PROGRESSING. THE RESULTS WOULD BE AVAILABLE THIS WEEK TO BE CONVERTED INTO A

RESULTS WOULD BE AVAILABLE THIS WEEK TO BE CONVERTED INTO A COMMISSION OR JOINT COMMISSION/PRESIDENCY PAPER. LEPRETTE CONFIRMED THAT MITTERRAND WOULD WRITE THE USUAL LETTER TO HEADS OF GOVERNMENT, BUT NOT UNTIL AFTER THE FOREIGN AFFAIRS COUNCIL. HE DID NOT KNOW IF ANY OTHER DOCUMENTS (EG DRAFT CONCLUSIONS) WOULD BE PREPARED IN ADVANCE: EXPLAINING THIS HE SAID THAT IF CERTAIN OUTSTANDING MATTERS COULD BE SETTLED AMBITIOUS CONCLUSIONS MIGHT BE POSSIBLE, WHEREAS IF A SETTLEMENT WERE NOT REACHED AMBITIOUS WOULD NEED TO BE MODERATED.

5. O'ROURKE (IRELAND) THOUGHT THAT THE PRESIDENCY MIGHT BE TRYING TO FIT TOO MUCH INTO TWO HALF-DAYS. IMPORTANT ISSUES NEEDED TO BE RESOLVED. CALAMIA (ITALY) THOUGHT THE ORDER INDICATED BY LEPRETTE WAS BACK TO FRONT. I RECALLED THAT THE PRESIDENCY HAD AT AN EARLIER STAGE SUGGESTED THAT HEADS OF GOVERNMENT KEEP OPEN THE POSSIBILITY OF STAYING UNTIL THE TUESDAY EVENING.

6. I SUGGESTED THAT MINISTERS AT THE FOREIGN AFFAIRS COUNCIL SHOULD BE INVITED TO AGREE WHETHER THE EUROPEAN COUNCIL WAS TO TAKE NEW DECISIONS AND ON WHICH SUBJECTS CONCLUSIONS WOULD NEED TO BE DRAFTED. PROVISION SHOULD BE MADE FOR THEM TO HAVE A DISCUSSION OF SUBSTANCE OF THE LATTER CATEGORY. LEPRETTE'S REPLY WAS EVASIVE.

7. LUXEMBOURG ASKED FOR THE AD HOC GROUP REPORT ON SEAT OF THE INSTITUTIONS TO BE "IN THE DOSSIER" BUT SAID THAT THEY WOULD NOT EXPECT A FULL DISCUSSION.

8. LEPRETTE CONCLUDED THAT HE WOULD REPORT FURTHER TO COREPER AS THINKING EVOLVED IN PARIS.

9. BOTH ERSBOLL (WHO SAW DUMAS IN PARIS ON SATURDAY) AND O'ROURKE HAVE TOLD ME PRIVATELY TODAY THAT THE FRENCH ARE THINKING OF ASKING THE EUROPEAN COUNCIL TO DECIDE THAT THERE SHOULD BE A MINISTERIAL MEETING ON THE FUTURE OF THE COMMUNITY IN THE COURSE OF 1985. ERSBOLL (WITH DANISH PREOCCUPATIONS NO DOUBT IN MIND) HAS SUGGESTED TO THEM THAT THERE SHOULD BE A PREPATORY MEETING AT WHICH ALL MEMBER STATES WOULD SET OUT THEIR IDEAS AND THAT THE OUTCOME SHOULD NOT BE PREJUDGED AT FONTAINEBLEAU.

FCO ADVANCE TO:

FCO - PS, PS/MR RIFKIND, PS/PUS, TICKELL, RENWICK, WALL

CAB - WILLIAMSON, STAPLETON, DURIE, LAMBERT

TSY - UNWIN

NO.10- POWELL

FCO PASS SAVING - STRASBOURG WASHINGTON

BUTLER

FROM: Sir Crispin Tickell

DATE: 11 June 1984

Mr Fairweather ECD(I)

CD/ 12/6

cc PS
PS/Mr Rifkind
PS/PUS
Sir J Bullard
Mr Renwick
Mr Crowe ECD(E)Mr Williamson, Cabinet
Office

Sir M Butler, UKREP

Brussels

HM Ambassadors, Community
Posts

EUROPEAN COUNCIL PREPARATIONS: BUDGETARY IMBALANCES

During the London Economic Summit, I saw a good deal of my Community counterparts, all of whom wanted to make points about work on budgetary imbalances.

2. Signor Ruggiero (Italy) said that there were constant rumours about new ideas and proposals. They were rarely consistent with each other. His Prime Minister knew little about the subject, and what he knew he did not like. For internal political reasons, he was if anything slightly more inclined than before to listen to his Foreign Minister. As for Signor Andreotti, he was more than ever against anything which could be described as a system. His present preference was for one or two years fixed refunds (Signor Ruggiero agreed that the second year might be higher than the first) followed by a 'risk-sharing' arrangement which could cover two-thirds of the VAT/expenditure gap. When I said that this was the wrong gap, he shrugged his shoulders and said that that would be a point for negotiation: we knew the views of the others. As for duration he thought that any such arrangement would last as long as the new own resources figure of 1.4% of VAT.

3. Signor Ruggiero admitted that none of this had been properly thought out. The Italians had views on the subject, but they were inevitably waiting on the Presidency. He emphasized the familiar point that the Italians were ready to contribute to compensation for Britain but would not agree to pay compensation to the Federal Republic or France. Hence the Italians had a preference for a system tailor-made for Britain.

4. Dr Fischer (FRG) was more worried than Signor Ruggiero. He also said that there was a lot of ideas floating about, including in Bonn, but not all of them could be taken seriously. Up to 7 June he had understood from M Morel (Elysée) that the French had some new proposals. These were, he believed, to establish a fixed refund of 1000 million ecus a year over 5 years. This figure would be topped up each year so as to bring it up to two-thirds of the VAT/expenditure gap. The resulting sum would then be reduced by a surcharge arrangement according to a GNP key. Dr Fischer said that he now understood that the French had abandoned these proposals, and he did not know what they now had in mind. He was surprised to hear that they had not put them to us, and pressed me hard to indicate the area in which we thought a useful negotiation could take place. I said that as he had stated these ideas to me, they were obviously unacceptable.

We had to have an arrangement which would last as long as the new own resources system, and thereby take the problem out of politics. We should work on the system agreed at Brussels. Moreover he was talking about two-thirds of the wrong gap.

5. Dr Fischer said that he was aware of the dealings we had had with M Davignon. Could we have accepted what M Davignon had then been willing to propose? I replied that we had been most grateful to M Davignon for his efforts. As the French had not been willing to go any further with him, it would be pointless for us to take up a firm position on his ideas.

6. M Thorn and M Ortolli (Commission) spoke to me at different times on the need for progress. They said that the Commission would do all it could to help. We had only to let them know. M Durieux separately said the same. We should stick to the Brussels system. The Commission was, he said, better aware than the member states of the consequences of a failure at Fontainebleau.

7. I have recorded separately my conversation with M Jean-Claude Paye(Quai d'Orsay) on 8 June (not copied to all). M Morel (Elysée) spoke to me next day of the need for early progress if we were to have things ready for an agreement at Fontainebleau. In this respect the timing of President Mitterrand's visit to Moscow was unfortunate. The aim of the French was to have something ready for M Mitterrand to look at - in a word the framework in which an agreement might be reached - on the aircraft to or from Moscow, where he would be from 21 to 23 June.

8. It was evident that after President Mitterrand had spoken to the Prime Minister at 08.45 hrs on Saturday, 9 June, the French must have informed at least the Germans that M Mitterrand had put certain thoughts to the Prime Minister. Dr Fischer was very anxious to know her reaction. On this I made no comment except to repeat that, as he knew, we would be in touch with the French at an official level during this week. Dr Fischer was worried about how the matters might be handled at the Foreign Affairs Council at the beginning of the week after. He thought it impossible to avoid a discussion, yet feared that such a discussion without proper preparation might make things worse rather than better.

9. There is increasing agitation as we move towards Fontainebleau. I noticed less inclination to blame us, and more willingness to juggle with formulas. By their relative inaction the French have exposed themselves to considerable reproach. At present our willingness to move if others do so too has put us in a good position. But this will last only as long as others remain immobile. This week and next we may find ourselves obliged to get out of the trenches and into the more difficult area of manoeuvre.



Crispin Tickell

11 June 1984

FROM: P S FAIRWEATHER
DATE: 6 JUNE 1984

MR RENYICK
PRIVATE SECRETARY

cc: PS/Mr Rifkind
PS/PUS
Sir C Tickell
Sir J Bullard
Mr Jenkins
(WED)
WED
SED
Planning Staff
Mr Houston
Mr Williamson

EC HEADS OF MISSION CONFERENCE, 5 JUNE 1984

1. We shall be circulating the full record of the Conference within the next day or two. Meanwhile, however, the Secretary of State and Mr Rifkind may welcome a resumé of the main points which emerged.

Prospects for Fontainebleau

2. Our partners are thoroughly sick of the budget problem and are becoming increasingly averse to dealing with it. This sentiment has not however, weakened a fairly general resolve to stick to the common position of the Nine so long as there is no move to shift it. Such a move would probably have to come from the Presidency. There is therefore no great optimism that the problem of budgetary imbalances will be settled at Fontainebleau. The French are pursuing alternative strategies: to work for an agreement if it is to be had at an acceptable cost; or, if this is not on the cards, to ensure that a breakdown takes place in conditions which maintain the solidarity of the Nine and the isolation of the UK. In this situation the UK would be blamed for all the difficulties of the Community, including the suspension of enlargement negotiations, if, as some Member States are suggesting, this was the consequence of a failure to agree on the budget.

3. It is vital politically for the German Government that the FRG should not be the only Member State without a limit on its budgetary contribution. However, reliefs for the FRG would not necessarily have to be operative in year one of the system.

4. The Germans may be working on ideas for something simpler than the present system but it is not clear whether they will put them forward.

5. The UK budget problem is not the only issue which could lead to deadlock at Fontainebleau. Others include the question of budgetary reliefs for Germany and the rate at which Germany would contribute to our refunds; and IMPs for Greece and perhaps Italy. It was agreed that we need early intelligence from posts on other Member States' shopping lists for Fontainebleau.

6. Despite the Prime Minister's meetings with Chancellor Kohl and President Mitterrand, interviews and numerous diplomatic conversations, some of our partners may still not appreciate that we are ready to make a further move on the figures which would set the parameters of the system as part of a final move, in which our partners would also join, to reach a settlement. We shall emphasise this point again in the next week or two.

After Fontainebleau

7. Heads of Mission all agreed that our partners are refusing to contemplate the problems which will arise if there is no settlement at Fontainebleau. This refusal must increase the risk of a failure at Fontainebleau. Few Member States seem to have considered their attitude to the Commission's proposals for a deficit budget in 1985 on which the Council machinery will start work next week. It remains important that we should ensure that our partners are left in no doubt of the position we shall take on the 1984 budget overrun, the deficit budget for 1985 and new own resources if Fontainebleau is not a success.

8. There was some discussion of the likely reaction of the Irish Presidency to a failure at Fontainebleau. Something like a consensus emerged that, while the Irish would probably not wish to call a special European Council as early as July, they would wish to make an effort to solve the Community's problems before the December European Council, which would be leaving matters perilously late.

President Mitterrand's Speech

9. President Mitterrand struck a responsive note in his speech to the European Parliament on 24 May. In particular it had been music to the ears of Chancellor Kohl. Most of our partners expect President Mitterrand's ideas for the relaunch of the Community to be considered adequately at Fontainebleau. The chances of a budget settlement might be materially affected by our attitude on that occasion. (It was suggested that, though our partners fully realise that we will remain the second largest net contributor to the Community budget, they are unwilling to make further concessions to us without some assurance that, once the budget problem is out of the way, the UK will join wholeheartedly in the effort to relaunch the Community.) This is the significance of the paper for Chancellor Kohl on the future of the Community. The ideas it contains will have to be deployed both at Fontainebleau and with our partners bilaterally. They, and particularly the Germans, are now deeply sceptical about the extent of the UK's commitment to the development of the Community. We need urgently to work up the ideas in the paper for Kohl.

P S Fairweather

P S Fairweather
European Community Department
(Internal)

cc EUROPEAN POLICY: European Council Mts
Brussels Pt 17



VC

10 DOWNING STREET

From the Private Secretary

12 July 1983

French Presidency: January-June 1984
European Council Dates

Thank you for your letter of 8 July.
I confirm that the dates suggested in your
letter for the European Council meetings
are acceptable in principle to the Prime
Minister.

TIM FLESHER

R B Bone Esq
Foreign and Commonwealth Office.

da

cc EUROPEAN POLICY: European Council Mtg
brussels Pt 17



Foreign and Commonwealth Office

London SW1A 2AH

8 July 1983

91
Prime Minister:

Dear Tim,

French Presidency: January-June 1984:

European Council Dates

UKRep Brussels report that the French intend to propose that European Councils during their Presidency should be held on 19/20 March in Brussels and 25/26 June in Paris. The Secretary of State is content with these dates. I should be grateful to know whether they are acceptable in principle to the Prime Minister.

To note.
These dates seem fine although the June Council is only two days after the Welsh conference

yours ever
Alison

JP
11/7

M.T.

pp (R B Bone)
Private Secretary

PS/10 Downing St

● PART _____ ends:-

PART 18 begins:-
Fco to AJC 8.7.83

