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## NOTE FOR THE RECORD

## PREPARATION OF THE EUROPEAN COUNCIL: 31 MARCH/1 APRIL

1. British and Italian Presidency officials met in London on 22 March to discuss the preparation of the next European Council. The Italian Presidency were represented by Ruggiero, Alessi, Cavalchini and Biondo (London Embassy); the UK by Franklin, Bridges, Hancock and Hannay.

2. Signor Ruggiero said he had in the past few days spoken to the Commission (Jenkins, Ortoli, Gundelach, Tugendhat, Noel, Tickell), the Belgians (Thuysbaert, Schouttette), the French (Francois-Poncet, Bernard Raymond, Paye, Achard, Bochet) and the Germans (von Dohnanyi, Lautenschlager, Schulmann, Fischer and Everling).

He had kept in touch with Signor Cossiga throughout.

3. In each capital he had presented the British problem as he saw it which was not perhaps as we saw it. It was a real problem, not a matter of principle or myths. The Community had been built up in the '50s, '60s and early '70s as a Community of six with principles, rules and policies which fitted the political realities of these six countries. Even Italy with its Mediterranean dimension had been able like the others to get a real "juste retour" without having to ask for it. When the UK negotiated its accession, the British had explained straight away that this would not work. The six had replied that the Community was dynamic, not static; there would be regional and other policies which would benefit the UK. And they had given the famous "Unacceptable situations" undertaking. The Paris Summit of 1972 had offered the real prospect of new policies which would provide a balance of interests in a Community of Nine. Had its communique been implemented there might have been no British problem; but it had not. So the UK was left without a real interest in the Community. That was the fundamental problem which must now be resolved. It was not so much a matter of finding a solution for three, five or six years but of giving the UK a permanent interest in the Community.

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4. In each capital, Ruggiero said, his assessment had been accepted. There had been much talk of protecting the principles and achievements of the Community but no questioning the need for a solution to the British problem, which could not be achieved simply by window dressing.

5. Signor Ruggiero went on to say that the most difficult aspect of the next European Council was not so much the precise issues of amount, duration and linkage as the atmosphere of political misunderstanding on all sides. No-one was prepared to address the problem in an unemotional way. There was distrust on both sides about the ultimate outcome. Some believed the UK was out to destroy the Community, others that we would never be wholehearted members. This mistrust was leading people to approach the linkage issues in a very extreme way. Another negative factor was the generally bad financial climate. Everyone had public expenditure problems. This limited British room for manoeuvre but it also limited that of the others.

6. Signor Ruggiero turned to the question of the communique. He believed this would need to clear the air on some general issues. It should state four principles:-

- (i) The achievements of the Community, the own resources system and the principles of the Common Agricultural Policy (unity of price, financial solidarity and Community preference) could not be touched.
- (ii) The Community must be dynamic and not static. The achievements could only be protected if there were a new approach to solidarity.
- (iii) The member states were principally responsible for achieving convergence but the Community must and should assist the achievement of this objective.
- (iv) If unacceptable situations arose for any member state, the Community survival depended on finding equitable solutions.

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This would be a balanced set of principles which would help everyone.

7. He then went through the budget issue in detail:-

- (i) Financial mechanism. The French had problems with the Dublin solution of removing all the constraints; and some of the Germans agreed with them. The French said their problems were practical not ideological. They wanted to leave the present mechanism unamended. At the end of each year the Commission would make a calculation as if the constraints had been removed. If the calculation gave a figure between 450 m.u.a. and 520 m.u.a., then we would get that figure; if it gave a figure below 450 m.u.a. we would get 450 m.u.a., if above 520 m.u.a., then 520 m.u.a. They realised this system would be difficult legally. But they believed the uncertainty of the Dublin approach was a drawback. The Germans seemed to sympathise with this; but would probably agree to guarantee a fixed figure and not a bracket.
- (ii) Supplementary expenditure. No great difficulty over this. The French had put great emphasis on spending going on projects of Community interest and Community procedures being followed. The Germans wanted a regional and not a sectoral approach to avoid explicit reference to coal.
- (iii) Amount. Both the French and the Germans had mentioned a total of 700 m.u.a. and had alleged the Dutch were agreed to this. The French had suggested on top of this an interest rebate loan scheme and had hinted at a further 100 m.u.a. in this way. When Ruggiero suggested 1,000 m.u.a., the Germans had reacted negatively and had said the final outcome would be nearer 800 than 1,000. Both the French and the Germans had challenged the Commission's latest net contribution figures, saying that administrative expenditure should be left out, giving a UK figure of 1500 m.u.a. rather than 1683 m.u.a. Both /had

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had said that, while the Financial Mechanism figures were net, their supplementary expenditure offers were gross. (Ruggiero commented that the 1,000 m.u.a. figure had become discredited as a result of Mr Jenkins plugging it and the French, and to a lesser extent, the Germans had said that compromises must come from the Presidency not the Commission.)

(iv) Duration. Both French and Germans excluded any kind of automaticity. This ruled out not only a receipts mechanism but also any system determining in advance the UK net contribution. They believed too long a period would suit neither the UK (lack of dynamism) nor the Community. Three years was their position and they had turned down Ruggiero's idea of a five year period with a review in the third year. (Ruggiero commented that he believed we would not get the certainty we wanted through any budgetary device, we must seek it in political terms by changing the balance of Community policies. A shorter period would reinforce the pressure for change and everyone would realise that the only alternative to progress would be another crisis at the end. The reference to "unacceptable situations" in the communique would make clear its continuing validity.)

(v) Restructuring. Neither French nor Germans would agree a fixed limit for CAP expenditure in 1986 as we were proposing.

8. Signor Ruggiero then took up the related issues. He emphasized that to others these were real links even if we did not accept them. It had even been suggested that a conditional figure of 1,000 m.u.a. might be offered in return for satisfaction on the linkage items at the Venice meeting. (He paused, looking for a response, but received none.)

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(i) Agriculture. There were a number of separate elements. First it would be right to confirm the ECO/FIN Council Resolution on the need to reduce the rise in agricultural expenditure. Second there should be a reference to a prudent price policy (the Germans made it clear that, for them, this meant a higher rise than the Commission's 2.4 per cent and Gundelach had said he expected the final settlement to be between 4 per cent and 5 per cent). No-one wanted figures put in the communique. Third there would be a commitment to strengthen structural policy, with a special emphasis on Mediterranean problems in the context of enlargement. Fourth on sheepmeat the French wanted a definitive regime not an interim one, although it could be introduced for a trial period of say, five years. There would need to be a system of premia, with a light intervention regime and "warning lights" on quantities seasonal limits etc. The Germans were not happy but would accept this.

/(ii) Fish

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(ii) Fish The Presidency's ideas of very general wording, simply urging progress, had been considered by both the French and the Germans as too vague. Ruggiero had offered to boost this with some language from the 1976 Hague Resolution and both had said they would reflect. The Germans had handed over some very detailed language, which they had suggested could go in an annex to the communique, containing the following elements :

(a) A non-discriminatory and economically reasonable conservation policy to maintain stocks.

(b) A fair distribution of catch quotas taking account of the vital needs of population in regions particularly dependent on fishing and also of the loss of catches in third country waters.

(c) Special arrangements for fishermen within the twelve mile limits while respecting the Community rules on access. Variable fishing plans could be used so long as they did not discriminate against other member states or stop them catching their allocated quotas.

(d) A structural policy with Community support.

(e) Third country agreements to enter into effect without delay.

(iii) Energy Both the Germans and the French now realised that they could not ask for very much under this heading. The UK could not be expected to do on oil what had never been asked of the Dutch on gas. The Belgians had wanted some Community preference in a time of crisis. The Germans had asked if the Prime Minister could reiterate what she had said in her interview with Die Welt about being prepared to help





EC and IEA partners during a crisis. A solution might lie in an invitation to the Community institutions to set up a better system of information, comparison and harmonisation of national (not only UK) energy programmes.

(iv) Italy/Ireland There had been great resistance by both Germans and French to the case for increased expenditure in Italy and Ireland. They had explained that it would be hard enough to finance a solution to the UK problem and had hinted that anything for Italy and Ireland would have to come out of that.

9. Mr Franklin and Lord Bridges then replied on the various points. We had found Ruggiero's general presentation

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stimulating and interesting. What he had to say on the detail was depressing. The ideas for the first part of the communique would need thought but could be a reasonable basis for discussion. We would have to see a text. Presumably the principles of the CAP would include free movement of goods. We could not accept the justification for linkage. Each problem had its own characteristics and needed to be treated on its merits.

(i) Financial mechanism We did not wish to go back on the Dublin consensus. We were not very convinced about the risks of variability. If the idea was to guarantee us a figure, we would consider the matter. But was it worth complicating an already difficult negotiation? None except the French seemed worried. The best course would be for the European Council to ask the Commission to put forward a draft for a mechanism without constraints.

(ii) Supplementary Expenditure We noted French and German views. We believed the latest Commission paper was a good basis on which to proceed.

(iii) Amount If other member states wanted to deduct administrative costs, then we would want to use our higher figure for a base (1813 m.u.a.). The Commission assumptions about MCA's were very dubious. So it would be much better not to argue about the Commission's figures but to work off them. We were very disturbed to hear it suggested that figures for supplementary expenditure were gross not net. When discussing the financial mechanism net figures had always been used. It was a net contribution problem we were dealing with. This was just a trick to reduce the cost. As to an overall figure of 800 m.u.a. this would get the discussion nowhere at all. The Presidency would have to consider whether to work for a reasonable compromise. That figure was no basis for one.

/ (iv) Duration





(iv) Duration This was a major preoccupation for Ministers. We must be assured the problem would not come back. We had tried the approach of trusting in the dynamism of Community policies before and it had not worked. A solution based on such hopes would not be politically presentable. So there must be a reasonable duration and a means of avoiding the re-emergence of an unacceptable net contribution. Everyone knew our net contribution in 1981 would be higher than in 1980 and that the Commission estimates would be exceeded if there were agricultural price rises. The attitude of other member states to re-structuring only intensified these concerns. A duration of three years would not be acceptable. The exclusion of any provision for review was unhelpful. The approach suggested would lead to the problem coming back to the Council very quickly.

/ (v) Agriculture





(v) Agriculture We had no objection to confirming the ECO/FIN Council resolution. A prudent price policy would for us mean no price increases for products in surplus. On sheepmeat we accepted the idea of a system of premia but did not agree on the need for intervention. Those who were pressing us to accept price rises should reflect on the fact that that worsened our net budgetary contribution.

(vi) Fish We were rather concerned at the Germans' detailed ideas. In view of the progress being made in the Fisheries Council it hardly seemed appropriate to go into such detail. The Commission had not even made quota proposals. We would not object to the communique giving general encouragement to progress but it should not go into more detail at this stage.

(vii) Energy We would look carefully at the Prime Minister's statement in Die Welt and consider whether it could be repeated. We would also consider the idea

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/of inviting





of inviting the institutions to achieve a better system of information and harmonisation of national energy policies.

10. Finally there was some discussion of procedure. Signor Ruggiero said he would now go again to Bonn and Paris and would end up in Brussels on 24 March, where he would try to put together a first draft of a communique. Signor Alessi would go to Dublin and The Hague, Signor Cavalchini to Copenhagen and Luxembourg. He hoped to organise a meeting of officials of the Nine on 26 March, either in Brussels or Paris. This would not be a meeting of COREPER but, if the meeting was in Brussels, some way might need to be found of associating the Permanent Representatives. We said we would fit in with his wishes; but the desirability of avoiding press publicity argued against Brussels.

11. Finally Signor Ruggiero reported two pieces of information that purported to reflect Chancellor Schmidt's views :

(i) Under no circumstances would he mediate between the French and the British. The Germans would accept what the French accepted. It was for the Presidency to mediate.

(ii) The budget issue should be discussed on the first afternoon (31 March). If no progress was made, officials should be instructed to draft purely procedural conclusions; and there should be no further discussion by Heads of Government.

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