

Europe Budget

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PRIME MINISTER

BILATERAL TALKS WITH THE ELYSEE

Monsieur Attali called on me and Mr Hancock at the Cabinet Office this morning as arranged. He came alone. He stressed that the only people aware of these talks in France, apart from the President and himself, were Messieurs Cheysson, Delors and Beregovoy. He said it would be disastrous from his point of view if the figures mentioned became known elsewhere in the French administration. I assured him that everything he said would be treated by us in complete confidence.

2. We agreed to refrain entirely from debating points of principle and to confine ourselves to exploring the political requirements on each side so as to discover whether there was scope for agreement. We also agreed to confine ourselves to the essential issues and we did not consider how any agreement between you and the President might be reconciled with the new scheme tabled in Brussels on 23 March which, Monsieur Attali told us, had come as a complete surprise to the French Government. During the course of our discussion Monsieur Attali made it clear that President Mitterrand would be willing, in the context of an agreement, to concede the following points:-

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- (i) Duration - he accepted the need to straddle the next British general election. He was not specific about the duration but it was plain that a 5 year settlement would not cause major problems.
- (ii) A review - President Mitterrand would accept a review at the end of the period without commitment to the outcome of it.
- (iii) The "over payment" in 1980 and 1981 - if the new figures were right then the French government would forget about the over payment; but Monsieur Attali gently and courteously reminded us that the President was under considerable pressure in France to deduct 900 million ecu from the amount that might otherwise be agreed for 1982 and subsequent years.

3. We spoke frankly about figures and established that a substantial gap exists between the political requirements of the two governments. I said that, although the United Kingdom considered that on merits it should be a net beneficiary from the budget, the Government was prepared to be a modest net contributor. The United Kingdom's political requirement was that the new arrangement should be substantially better than that agreed on 30 May 1980 which for convenience might be characterised as a sharing of the unadjusted net contribution between the United Kingdom and the



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Community in the ratio of 1:2. I mentioned various figures for the new division in the range 5:95 to 10:90.

4. Monsieur Attali said that the French President's political requirement was determined by the fact that he had denounced the 30 May Agreement as a defeat for France and accused his predecessor of paying too much to the United Kingdom for "peace" over farm prices. For that reason, the new agreement had to cost the French budget less than the 30 May Agreement; and this political requirement was now reinforced by the fiscal difficulties faced by the French Government. The 30 May Agreement had cost the French budget 2.1 billion French Francs for 1980 and 2.5 billion French Francs for 1981. If the 1981 figure was accepted as definitive, the maximum net refund that the United Kingdom could receive, assuming no great change in the amounts paid by other Member States, would be 1200 million ecu. At first Monsieur Attali said that this figure was very much the upper end of the French range of possibility and he told us that some officials in the responsible Departments in Paris were advocating a maximum of 700 million ecu. But later he dropped a hint without commitment that the President might be willing to go up to 1300 million ecu and then to see this amount increase in line with inflation in the years following 1982.

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5. Monsieur Attali expressed interest when it became apparent that we were thinking more in terms of percentage shares of the United Kingdom's unadjusted net contribution than in terms of absolute amounts for the refunds. He noted that a 1300 million ecu would be just over 70% of an unadjusted net contribution of 1800 million ecu, the figure assumed by the French officials for the United Kingdom in 1982; and he enquired whether you would be prepared to contemplate a falling percentage share over the period of the agreement. I asked whether he meant a percentage of, say, 95% in 1982 falling to something less in later years. He replied that 95% in 1982, requiring a refund of over 1700 million ecu, would be entirely outside the French President's room for manoeuvre, since it would oblige France to pay far more than President Giscard had agreed to pay.

6. On farm prices, Monsieur Attali said that the French government's requirement was for an average price increase of 11½% in addition to a devaluation of the Green Franc to eliminate the existing MCA. I detected no hint that he was privately calculating for any additional advantage from a further devaluation of the French Franc. He said that, if no agreement were reached, the French government would pay national aids to make up the difference. They were ready to face a crisis in the Community over this but they did not wish to blame the United Kingdom for it. They



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recognised the problem as a Community problem. The cost to the French budget of national aids would be 5 billion French Francs a year, ie twice what they were prepared to offer to solve the British budget problem.

7. This last figure was volunteered by Monsieur Attali when he explained that Monsieur Cheysson would not be able to agree to a budget settlement on 3 April if the price package had not been agreed by the Agricultural Council the day before. (He stressed that in public the French government would deny any link; but in fact there was one.) He said that the French government could obviously not announce an agreement costing France 2.5 billion French Francs a year the day after incurring a bill of 5 billion French Francs a year partly because of the attitude of the United Kingdom. I thought that I could detect an extremely indirect hint that, if the government were prepared to help France avoid a bill of 5 billion French Francs, they might be able to go further than 2.5 billion in the budget context.

8. At the end of our meeting I undertook to report what he had said to you and he to report what I had said to the French President. We tentatively arranged to meet again in Brussels on Monday before lunch to see whether any further movement towards a solution might be possible. I have undertaken to telephone him on Friday afternoon to confirm or cancel this arrangement.



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9. Mr Hancock will be arranging a discussion with the Foreign Office and Treasury tomorrow and a note will be submitted about what I might say to Monsieur Attali on Monday for consideration by you, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, to whom I am sending copies of this minute.

ROBERT ARMSTRONG

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24 March 1982

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