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Our reference

Date
29 June 1984

MF 4/7

Dear [redacted]

EUROPEAN COUNCIL FONTAINEBLEAU, 25-26 JUNE 1984

- 1. I enclose the "informal" record, compiled almost exclusively this time from the Secretary of State's notes, as the Presidency provided much less briefing than in the past and other delegations could add little to what we otherwise knew.
- 2. As usual I also enclose as complete a set as I can muster of the texts that were under discussion.

Yours ever

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APS/Secretary of State
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Cabinet Office

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EUROPEAN COUNCIL, FONTAINEBLEAU, 25-26 JUNE 1984

A. FIRST SESSION: AFTERNOON OF 25 JUNE

Introduction

1450

1. Mitterrand welcomed the members of the European Council. He suggested that the first session should start with a discussion of international questions, followed by budget and budget-related questions. On the following day the meeting would deal with other Community issues, including new policies and questions related to European Union and institutions. He suggested a break at 5.00 pm for private discussions after international questions had been dealt with. Dinner would be a working occasion, as usual, with a possible further meeting thereafter.

2. Mitterrand recalled that there had been many bilateral meetings since the Brussels European Council. But nothing could be settled by bilateral discussion. All the various issues had come together at this meeting.

International Questions

3. Mitterrand then (without prior warning) invited the Prime Minister to report on the London Economic Summit.

4. The Prime Minister, offering what she described as a free-wheeling report, said that the main issue had been how to maintain growth. In Japan and the USA millions of new jobs had been created, while none had been in Europe. These new jobs had come first from new technologies - how was Europe to regain leadership? - and secondly from service industries, especially small businesses. Japan in particular did not have the problem of old industries on the European scale. There had been different views on work-sharing. She personally thought that the problem was not how to share out work, but how to create it. She compared American enterprise culture with European envy culture.

5. On third world debts, referring to de la Rosière's speech in Philadelphia, she noted that there were no magic solutions. Even so, the Summit had felt the need for a framework. Each case should be treated separately; e.g. for Mexico multi-year rescheduling might be right. In other cases the debtors could help themselves, e.g. by inward investment, allowing a greater role to the IMF and IBRD ... and working more closely with the private sector. The poorest countries needed aid.

6. All agreed on the need to tackle terrorism both individually and together. On East-West relations, all had agreed on the twin-track decision and the need for dialogue. She had been struck by US willingness to talk, not in order to make concessions but to enable understanding to develop. There had been an appraisal of the Iran-Iraq war and rumours of an Iranian offensive. The general view was that there was no crisis in the oil market. There had been general support for all efforts by the UN and others to bring the conflict to an end or at least to limit its effects and avoid its spread down the Gulf.

7. The Prime Minister concluded that it had been a successful Summit, continuing the theme set at Versailles of adaptation to

change. Mitterrand thanked her and noted that there had been differences of emphasis. France would have liked to have gone further to meet the requirements of the Third World, with practical measures, because they were suffering very badly. France had also striven for greater cohesion in the monetary field rather than leaving one economy leading the field and pushing others into a subordinate role.

8. Thorn endorsed the joint summary by the Prime Minister and Mitterrand. He wished to add a word about trade, for which the Commission was competent. Differing views had been expressed. He had been bothered by the slight differences which had emerged between European Community members, since there was a Community position. The US had led, with enthusiastic support from the Japanese. Yet the Japanese were the most protectionist of all, and the USA had not appeared in any better light than the Community. It was wrong always to put the Community in the dock. He had said that the Community wanted a new round but that it needed to be built upon solid preparatory foundations.

9. Mitterrand agreed. In principle a new round was desirable, but no date had been agreed. It was better to get on with the work in hand.

10. Turning to disarmament, Mitterrand thought that all the Europeans had agreed that dialogue should be continued from a position of strength. Conditions for the dialogue were not ideal. The contents of the dialogue were for the USA and USSR to determine. Those not involved in the negotiations could not impose conditions for the others. The position of the UK and France could not be compared with that of the USA and USSR.

11. Mitterrand said that he had gone to the Soviet Union in response to Andropov's invitation. He had gone only after the immediate problems of TNF deployment in December 1983 had been overcome and after the change of leadership. Andreotti, Genscher and the King of Spain had already been: it was a well-trodden path. The Sakharov affair had then surfaced. His life had seemed in danger. (Mitterrand) European public opinion was aroused. He had been subjected to pressure to postpone his trip, but he had stuck to the agreed dates, since relations between states could not depend on such matters.

12. He had been received, as a matter of protocol, by Chernenko. On Thursday delegations had met, 15 a side. Chernenko had read out a long, stock speech. He noted that it had not been as black-and-white or brutal as he had expected, and that there had been no reference to counting French and UK nuclear forces in the negotiations - though this might have been in order not to mention the negotiations at all. He had obtained the impression that the Russians were waiting for the US side to move. Unpleasant things had been said about the USA, in tough though not quite such strident terms as in the past. In the afternoon he had had a tête-à-tête meeting with Chernenko, which the latter had started with a prepared statement. Mitterrand had invited Chernenko to visit France; Chernenko had said he would be delighted.

13. Things had become more tense in the evening. The dinner had been a splendid spread, with overtones of Ivan the Terrible - religious texts on the walls and a considerable degree of comfort.

The French text of Chernenko's speech had been on the table: only the written text was to be published while his oral remarks would be ignored. That was how it had happened. He had asked why but still did not know. Two-thirds of his own speech had dealt with East-West relations and disarmament. He had chosen his words tactfully. He had expressed disquiet on Afghanistan, Kampuchea, the withdrawal of freedoms in Poland granted in 1980. He had also raised human rights and Sakharov. It was not normal to talk about such things: it had not gone down too well at the time, being considered a discourtesy, to be avoided on such occasions. He had concluded with a fine peroration on Franco-Soviet relations, trying to sugar the pill of what he had said on Sakharov and Afghanistan.

14. On the next day Mitterrand had talked to Gromyko, who was always there to take over when others flagged. They had got on rather well. It had seemed that the cloud over the previous evening had disappeared. They had discussed bilateral questions, the military future of Western Europe (on which Gromyko was clearly concerned about West Germany, though this was not said). Disarmament via agreements on space weapons and chemical and biological weapons had seemed important to them, more so than the nuclear disarmament negotiations at Geneva, though these did seem to concern them.

15. Chernenko had not seemed ill, but he did not do anything for long without a break. He could walk but always had someone to look after him. The leadership was collective. Gromyko was much in evidence. Gorbachev was the number two, but in a highly hierarchical sense.

16. Mitterrand had drawn the conclusion that the dialogue needed to be sustained from a position of strength. If the Soviet Union formed the impression that the West was weak the dialogue would not take place. He had the impression that the Soviet leaders wanted dialogue more than they had last year. This might be because they were lagging behind and shying away from a very expensive arms race in space. He thought they were not keen to extend the arms race. Their position might change after the US elections.

17. Kohl thanked Mitterrand: he had visited Moscow on behalf of all, not just France. He thanked him for what he had said about German soldiers at Stalingrad: that was symbolic of the new Europe and of Franco-German friendship. Kohl had seen Kadar in Budapest on the previous Friday. Hungary was interesting, as Mrs Thatcher and Craxi had seen before him. His invitation had been part of a strategy. Kadar wanted to make it clear that whatever the power structure Hungary was a European country. He had asked Kohl - in the light of the CMEA and London summits - to make it clear that he wanted to visit the FRG in the autumn. (So had Zhivkov, i.e. two senior members of the Warsaw Pact.) The way Kadar spoke about the future was useful, though more in tone than in substance, urging that the dialogue be continued. It was clear that Kadar and Hungary felt that they had lost a great deal with Andropov's death. They had invested a lot of hopes in him, hopes for new economic thinking. They saw Chernenko as only an interim solution. In defence matters Gromyko and Ustinov were crucial. For them Gorbachev, who had made Andropov, had a very real chance.

18. The Soviet leaders seemed to have an idea that the USA might launch a war on them. He thought that in Budapest and even in East Berlin there was some unhappiness about the idea of withdrawal of US missiles as a prerequisite for resuming the Geneva talks. But they did also express fear of a prior US strike - though this might be because they were caught in the web of their own propaganda. Their fear was not very rational but it was a natural consequence of their historic, geo-political sense of insecurity. It was very difficult to explain to our American friends that this was a real factor in Soviet thinking. It was important to keep up the dialogue and to impress upon the East that no one in the West had any thought of starting a war. This was why it was important to keep up the discussions on MBFR. It was all the more important to maintain the dialogue since the USSR was no longer able to impose its view on its allies given the less monolithic power structure in the Warsaw Pact.

19. Lubbers, reverting to the London Summit, observed that the way in which the European economies lagged behind those of the USA and Japan was striking. Too large a share of resources had gone to the public sector. Economies had been made in too inflexible a manner. More emphasis needed to be given to European monetary cooperation, for the sake of competition alongside the dollar and the yen. The shortcomings in the Community's internal market were very serious. A strong internal market was vital for new technologies. Mrs Thatcher had correctly mentioned the importance of aid for the poorest countries, but trade was also very important. The Community should not allow itself to be forced into a defensive position. If in London Japan expressed itself in favour of free trade then the Community should be so a fortiori.

20. Lubbers thought that work-sharing was discussed in a misleading way. It could be so organised as not to have an adverse effect on economic growth. That was the lesson of history. Growth had led to a shorter working week. With flexibility, which Mrs Thatcher had rightly said was necessary, it should be possible to resume progress in that way.

21. Lubbers thanked Mitterrand for his report on his visit to Moscow. He agreed on the need for dialogue from a position of strength. The fact that all the Western leaders were so interested in what was occurring in the Soviet Union underlined the strangeness of the position: it was as though there were two different planets. Yet the Eastern Europeans were our neighbours. So efforts to maintain the dialogue, though without weakness, were right. He wondered whether there was any evidence to permit the expectation of movement from the Soviet Union in the spring. That was what the West wanted, but was there any evidence?

22. Martens thanked Mrs Thatcher and President Mitterrand for their reports. He had been struck by the size of European public sectors, the rigidity of their labour markets and the lack of technological progress, and by the discussion of work-sharing. He drew attention to the Albert-Ball report. The European Parliament had passed a resolution based on it. The Council should consider it too and hammer out a common approach. All Mrs Thatcher's points had been mentioned in the report. On work-sharing he said that Belgium was trying to get something going between employers and labour. But there was a risk unless action

was taken on a pan-European basis and preferably on a basis agreed with Japan and the USA. He had been interested to hear that the subject had been discussed in London.

23. On arms control Martens noted that the Americans had said in London that they would return to the Geneva talks without pre-conditions. The Soviet Union said they would do so only on the basis of the status quo ante. Had anything been said at the London Summit about a possible approach to the Soviet Union after the US election?

24. Kohl thought the Soviet Union was at a dead end. The Warsaw Pact was in an equally uncertain state. In the context of East-West relations the personality of the US President was important, and the Soviet Union did tend to take his words out of context. He was not happy with all of them and had said so. But they were nothing like some of the dreadful things the Russians said. He thought that the latter were hoping for a Democratic victory in the US election. They had painted themselves into isolation. They now realised that they could not drive a wedge between the Western allies. He noted that the Soviet Union was attending the Munich Environment Conference opening that day. They had accepted more rapidly than the USA. They might be trying to get away from their psychological dead end. He thought that the Soviet leaders were worried about their economy, especially the new generation. They were not as well off as they had been, and the Warsaw Pact countries were all becoming more open. Information was now flowing into them and into the USSR (tourists, newspapers, etc). It would no longer be so easy for the Soviet Union to maintain its propaganda dominance. He would not be surprised if Chernenko did decide to visit a Western country himself. He was trying to break away from his colleagues. When Genscher had asked him to come to the FRG he had accepted. The interpreter had had Gromyko's written brief, which had been much colder than what Chernenko had said. He thought that they might be looking for a way that offered some hope for the future. Finally he noted that his opposite numbers in the GDR were now talking in terms which would have been unthinkable 10 years ago.

25. Papandreou, referring to reports on the London Summit, urged the need to recognise that not only the third world debtors were at risk. American banks were also. What was under consideration was not an act of charity. On East-West issues he thought nothing would be resolved before the US elections. Thereafter it would depend on Reagan, whom he expected to be re-elected, but also on what happened in the East. He reminded his colleagues that Greece was a Balkan nation and therefore had good relations with neighbouring Eastern Balkan nations. He knew Kadar well. The Cold War meant discipline in the Soviet bloc. If the West was looking for an opening in the East détente was needed in order to promote a more relaxed form of discipline. The Warsaw Pact countries were looking to Europe to promote an atmosphere in which the Super Powers could resume their dialogue. This process should not be kept secret. European views should be made plain to the outside world.

26. Fitzgerald thanked Mitterrand for his report. He was convinced about the importance of maintaining the dialogue during the present US/USSR tension. The Warsaw Pact allies were unhappy with the present situation. He thought that there should be more discussion about Poland.

27. Turning to the economy Fitzgerald endorsed Mrs Thatcher's remark about the difference between US and Japanese performance and that of the European Community. This must be due in part to the size of the public sector in Europe. He had been struck by the lack of economic cooperation between the Member States, the lack of joint conjunctural planning. This was particularly important if, as forecast, there was a fall in US growth. The Community should plan together how to offset that. The discussion of work-sharing showed the difficulties which arose over the expression, which meant different things to different people. He suggested giving recipients of unemployment benefit two part-time jobs, or giving public sector workers part-time jobs. He wondered if the Social Fund could help promote this. Governments had so far been fortunate in the lack of strong political reactions to unemployment, but he wondered if that luck would hold.

28. Fitzgerald thought that the London communique on the problems of the third world was as far as it went but it did not go far enough. After the first oil crisis some growth had been achieved in less developed countries by recycling OPEC money. This was no longer happening. Werner agreed that problems of debt had to be handled on a case by case basis but wondered if that was enough. The IMF and IBRD had a role to play but he thought that the Community should try to harmonise its approach at those organisations' meetings better than hitherto.

29. Schlueter welcomed the signs of economic improvement but worried that it could too easily stall. The process needed to be nurtured. It was sad that the European Community was so dependent on the US economy. The Community seemed to be playing a very passive role. The Community should analyse what it could do together. It was necessary to acknowledge that there was no real chance of Community citizens raising their living standards in the short term. More resources needed to be devoted to investment. That was not helped by high US interest rates. If any one international debtor reneged that would be very bad, so US interest rates must be brought down. On East-West relations he agreed on the need to maintain a dialogue and to try to shift the focus away from the INF issue.

30. The Prime Minister agreed about the importance of high US interest rates and the strength of the dollar. That was what the down-payment was all about. The Americans would have to follow that up with further reductions. But the Americans would need to make their moves slowly. On East-West relations she warned against over-optimism. One should not assume an early resumption of negotiations. It was necessary to think about and discuss what the dialogue could achieve. With Eastern European countries one should not overlook the part which trade with the European Community could play. She wondered why the Soviet Union was so interested in chemical weapon disarmament when they had so large a stock and the only deterrent the West had was nuclear. The Korean airliner incident showed what a terrible line of command they had: she wondered who did control their army.

31. Mitterrand said that he proposed that there should soon be a break followed by discussion of budget imbalances. Summarising the discussion he was glad that there was general agreement on the approach to East-West relations. As to the hypothesis of

improved relations during the next year there was no facts only speculation. During their meetings with Western leaders, the Soviet leaders had appeared to be disengaged, but at the same time they did seem to want to talk or at least to be thinking about it. It could be that they did not want to talk to the Americans but wanted to use Europe as a foothold on the way to talks with the Americans. They did not want to help Reagan's campaign: they would wait and see. But they were saying that they wanted the status quo. Between the lines he believed they might be moving towards an acceptance of the US basis for negotiation. He had asked American leaders how they expected the Soviet Union to accept that basis when American missiles had been deployed. The own pre-conditions line in those circumstances tended to favour the West. On the other hand he had made clear to his Soviet interlocuteurs that they had first deployed SS20s. He thought that they could not have done other than to leave the Geneva talks in the light of what they had been saying. Yet they still did want to negotiate but did not know when. It would certainly not be before the end of the year. In the meantime they were clutching at every straw, including the environment meeting and chemical weapon disarmament. He repeated that the without pre-conditions line which had been discussed in London was advantageous to the West. The dialogue could only be resumed if neither side insisted on anything. Provided the West did not give ground on defending its territory any basis would do. In conclusion he noted that the Soviet leaders had reacted glacially whenever the European Community had been mentioned. They suspected the Community as an agent of US influence. But they would take the Community into account once they were convinced that it was not true and that the Community had real power. He then suggested a short break.

1730

Budgetary Imbalances

32. Discussion resumed at 1800. Mitterrand suggested taking first the issue of budgetary imbalances followed by the German agricultural problem and if time permitted own resources. He had discussed the budgetary imbalances issue with all his colleagues, and Dumas and Cheysson had gone into it in greater depth. He had essentially remained aloof allowing his Ministers to get on with things. Fortunately they had been able to combine Presidency and French roles.

33. Dumas said that all remembered that at Brussels it had not been possible to solve the problem of imbalances. He suggested taking stock of the various proposals made in the talks since then. Discussion at Brussels had closed on the basis of Kohl's suggestion of 1,500 mecu for 5 years. That had been reduced to 4 years. He did not detract from the principle of Kohl's approach: lump sums. The Italians had said they could agree with that. But Mrs Thatcher had said she wanted a system to last as long as the problem. As an illustration she had said 1,000 mecu for 1984 and a system to operate from 1985 with 1,250 mecu for the reference year of 1983. That would have refunded something like 90% of the British contribution. The Presidency's suggestion was based on the idea of a lump sum plus proportionality. 1,000 mecu in 1984 would be followed by a further lump sum in 1985 with some adjustment (eg 1080 mecu). The system would operate from 1986 onwards on the basis of the first or possibly second year lump sum with some addition to take account of the growth of the gap over the

previous year. Those were the proposals on the table today. Various ideas had been put forward in the course of the talks including some by the British, which it might best for Sir Geoffrey Howe to explain.

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34. Mitterrand recalled also that Thorn had suggested at Brussels (and had been supported by Lubbers) two fixed years/by the system. Thorn said that he did not wish to add to Dumas' presentation. But 8 days after the Brussels European Council a further effort had been made at the Foreign Affairs Council. The French delegation had also made a proposal, which he thought had been put to the British, of two lump sum years followed by a system based on a simple percentage.

35. When Kohl declined the Prime Minister's invitation to speak before her, the Prime Minister said that many efforts had been made to solve the underlying problem since the Strasbourg European Council in 1979. Only Genscher had remained a member of the European Council since then. The issue had taken a long time to settle. She stressed that if there was to be an increase in own resources there had to be the equivalent of a change in the Treaty. Those who wanted an increase therefore wanted a change in the Treaty. There could be no question of accepting a temporary change in exchange for a permanent increase in own resources above the 1% ceiling. She did not imagine that anyone would argue against that. At the Brussels European Council much progress had been made towards a system. But it was on the basis of a reduced gap, not the real gap. She was willing to agree to a figure to go into the Brussels Presidency text. She could accept something less than the figure she had named then but could not come down far. She declined to give a figure at that stage. Her preferred approach was the Presidency text with one transitional year only, i.e. 1984, followed by the system operational in 1986 with reference to 1985. She warned against going back from the Brussels text. She proposed trying to agree on the Brussels system with a figure, a threshold and a percentage. But if other Member States wished to go forward on the basis of a zero threshold, which was less attractive for the UK, she could consider that, but it would mean a more favourable percentage refund. So she suggested sticking to the Brussels text. A threshold system was needed for the sake of Portugal. The question could be remitted to Foreign Ministers. She also stressed the need to stick to the text on strict budgetary control, including the word "guarantee". This was necessary for the sake of all net contributors.

36. Mitterrand thought that the Prime Minister's approach was about right. He was flattered to be credited with the paternity of an idea which was not his own. What had happened was that some members of the European Council had wanted to limit the UK contribution for two years. This was the position which had been reached at Brussels. It would be wrong to go back on that. But no agreement had been reached on the reference year or the figure. As a Frenchman he did not approve of this approach, but as President he was committed to it and thought that the method was right. He agreed that Foreign Ministers should be asked to do more work on the issue. Everyone had made an effort, not least the UK and Mrs Thatcher.

37. Genscher said that it was true that the Presidency had suggested 5 years of lump sum payments and that Lubbers and Thorn had reduced that to 2 years. At the subsequent Foreign Affairs Council he had argued for two lump sum years plus a system since that was for other countries as well. Two points had remained outstanding, the reference year and the amount. There was only one conceivable reference year, 1983. He suggested fixing the figure for that year and the following year then applying the system. Two other proposals had been tabled which would be simpler, but they did not take account of the basic idea that growth of Community expenditure should be catered for.

38. Schlueter warned against taking up a whole series of new ideas going beyond the text from Brussels. He also warned against trying to tighten up the budget discipline text. In general it would be better to avoid changing what had been agreed at Brussels.

Enlargement

39. At Mitterrand's invitation Dumas gave an account of the progress in the enlargement negotiations. Considerable progress had been made. With Portugal at the 19 June meeting the agriculture chapter had been more or less completed. Fisheries was still in abeyance, but negotiators were continuing to work on the basis of the Community position. It should be possible to finish the whole negotiation by 30 September. With Spain things were more complicated, but it had been possible to set up a small working party with them on 19 June which had drawn up a record of points agreed and disagreed, on both agriculture and industry. On agriculture the Community had proposed a 10 year transition period, staged 4 and 6. This had been accepted by Spain but they had recorded their wish to avoid an imbalance between agriculture and industry which should both have the same transitional period. On industry the Commission had suggested 3 years, the Council had advanced 6 and Spain had responded with 7. The gap was not so wide. Talks were being pursued on customs duties. So major progress had been registered on industry and agriculture leaving two major areas: fish and wine. The Community's proposals on fish had not been well received by Spain, and counter proposals could be expected. It would be bold to stick to the September deadline for Spain. The Spaniards had said October. Their real deadline was the end of the year. In sum major progress had been made, but two important issues still remained to be settled, and everything depended upon the availability of new own resources by 1 January 1986.

40. Lubbers agreed that some progress had been made with Spain. But it now looked as though there would be some delay on the 30 September deadline agreed at Brussels. That would not be too important, but the European Council should say that the Community would do its utmost to stick to the earlier date. He suggested asking the Commission for a political view of the overall position. Barry urged trying to stick to the 30 September deadline for both candidate countries, since all intended that both should join together. Craxi agreed.

41. Thorn said that the atmosphere with the Spaniards had improved; but it would be very difficult to meet the deadline in their case. They had been late in giving the Commission information needed, and some Member States had also been making

difficulties. The two negotiations must be kept together. If Portugal got ahead of Spain the latter would have to start again with a Community of 11. That would also be bad for NATO, and furthermore it would be quite impracticable because there would be no common frontier between Portugal and the Community. Lubbers agreed. It would be possible to complete the negotiation with Portugal before Spain. But that would be bad. Every effort must be made to finish the Spanish negotiation in good time. The European Council could go no further than to make a declaration of its intention to make a real effort. Martens urged the European Council to make every effort to stick to the Brussels agreement. Kohl also agreed that it would be a disaster if the two negotiations were separated.

Dismantlement of German MCAs

42. Kohl said that the problem was very difficult. His Bill before the Bundestag had to come into effect on 1 August. They would stick to the decision of 31 March, but this required major sacrifices. Great problems called for action. The reduction in farm income in the FRG between 1983 and 1984 was likely to be 22% and in the following year 23-24%. These sums had been carefully done and were correct. This meant that real incomes in agriculture in the FRG would be effectively halved over two years. Farmers' incomes had already been the seventh lowest in 1983, well below those in comparable countries. In 1984/5 they would slip further down the scale. It was the abolition effectively of the MCAs which had caused this. The Bundestag had provided for DM1,000 million. To make this available there would have to be an increase in the VAT rebate from 3 to 5%. Article 93 of the Treaty provided for this. The necessary amendments would have to be made to the legislative texts by the appropriate Councils. Kohl protested that the FRG were and always would be very good Europeans. But with the increase to 1.4% in the VAT ceiling and the ending of MCAs this income reduction was beyond anything that the FRG could bear: their backs were to the wall.

43. Thorn said that Kohl had put the position very clearly. He repeated the Commission's view but indicated that he would bow to the judgment of the European Council. In the FRG farm incomes had fallen seriously in 1983. It was very difficult to find a base year for comparison which suited everyone. On 1983 figures there had been a record drop of 22% in the FRG, 20% in Luxembourg, 18% in Belgium and 10% in France. But if one made a comparison with other years the position looked different. As for 1984/5 he did not wish to say that Kohl's figures were wrong, but it was very difficult to forecast. Politically the situation was serious. The Commission's position was that on 31 March a final package had been agreed in agriculture with one essential element, a 5% reduction in the German MCAs with 3% VAT compensation. That was what had been agreed, at the suggestion of the FRG Minister. But now the Community had been presented with a fait accompli. The FRG had not negotiated, it had just presented the action as taken. No proper negotiation had been possible. The Commission felt that a real compromise had been reached on 31 March. If that was to be defended then the whole package had to be defended. If the Germans could change part of it then why could not milk questions be re-opened by other countries? Furthermore the German action affected all agriculture and was unlimited in time. In

his letter to Kohl he had drawn attention to two points. There were resources available in Community programmes, for instance DM500-600 million for less favoured areas, that could be used. The Commission could have come up with other ideas. But now that was impossible. However if all ten Member States agreed to the German request then change might be possible.

44. Andreotti asked what would be the effect of such a change on the market. It would not simply constitute a domestic aid. It would upset the balance of farm markets in other states. Thorn replied that the change would not distort competition very much, but it was a variation of the agreed basis of the package.

45. Kohl protested that the FRG was not intending to boost production. They did not want to. It was the last thing they wanted. But he was banking on Europe to help. And Europe could not mean a one-way street. He was agreeing to an increase in own resources in 1984 and again probably in 1988 which would have enormous financial effects on the FRG. Some political backing was needed to get those through. He had said that every DeutscheMark paid into the European Community was in the interest of the FRG. But without the increase in VAT relief he could not get the measures through in Parliament. He was moving into a very difficult political situation and was looking for help from the Community. Lubbers said that Kohl had explained his political difficulties, but others also set political store by the agricultural agreement reached on 31 March. The Netherlands had a similar position though on a different scale. How was he to explain to his farmers that they must accept their losses if the FRG was treated differently? He cautioned against re-nationalising agricultural policy. This did not mean that sympathy could not be shown for the FRG. He well understood the importance of German parliamentary opinion. Perhaps it would be impossible to anticipate the first 3% step and leave the rest of the issue to the Agriculture Council. If a Member State had a problem, it was only right that other Member States should respond to that. But it was necessary to judge what was the right and necessary reaction. Perhaps the scheme could apply only to products affected by MCAs and it could perhaps be on a degressive basis.

46. Mitterrand said that he did not believe that the question could be settled during the next 5 minutes. Two ideas needed to be borne in mind: that the Brussels agreement should not be undone and that the FRG request should not be ignored. These might be irreconcilable, but that was what Ministers were for: to reconcile the irreconcilable. The Council had to be able to respond to this German request, but at the same time it had to prevent the response dislodging the Brussels agreement. Foreign Ministers should discuss this issue further as well.

47. Genscher said that the Brussels agreement on dismantling MCAs had an objective: to do away with distortions of competition. What Kohl had proposed would not affect that. It would compensate for the fact that the Community had no adequate or coherent monetary policy. The extra money would be found from within the FRG. There was no call on Community funds. The FRG would indeed dismantle MCAs. Mitterrand stressed the need to avoid distortions. The FRG must make a step towards the rest of the Community on that count.

B. DINNER DISCUSSIONS

HEADS OF STATE AND GOVERNMENT

A Citizens' Europe

1. Over dinner Mitterrand suggested a number of areas in which the Community should act in order to bring the Community closer to its citizens. He listed the common passport, a European TV channel, a European logo and flag, suppression of frontier formalities and the creation of single customs posts, a Community-wide voluntary service overseas scheme. A group of personal representatives should be set up to ensure progress was made in all these areas and on the environment.

Size of Commission

2. The Prime Minister raised the subject of the size of the Commission arguing the case for each Member State having only one member. Lubbers, Fitzgerald and one or two others supported. But Craxi and Kohl preferred to maintain the present arrangements.

Role of Institutions

3. There was some discussion of the role of the European Council during which Mitterrand expressed the view that it should only exceptionally be called upon to take decisions. He also expressed himself in reserved terms about any increase in the powers of the European Parliament.

FOREIGN MINISTERS

Dismantlement of German MCAs

4. Foreign Ministers continued their discussion. Several Ministers questioned the need for the blanket proposal made by the Germans. Van den Broek wondered why it was necessary to give VAT relief on products not covered by MCAs. Genscher responded that the 3% reduction applied to all products. There was no reason why a 5% reduction should not also do so. In response to a question from Andreotti about the date of implementation he justified 1 July by reference to the beginning of the harvest year. The scheme was necessary to enable the Government to carry through the abolition of MCAs. The payment was needed a little bit earlier than had been foreseen. The trade flows would not be affected.

5. Riberholdt (Danish Permanent Representative standing in for Ellemann-Jensen) asked whether the Germans wanted to bring forward the date of the MCA change to 1 July as well. Genscher said that it applied only to the VAT reduction. Ortoli questioned the need to advance the date. He also wondered whether it was necessary to extend the benefit of a 5% cut that had been accepted for all products at 3% again to all products. Cheysson argued that as the Agriculture Council had accepted the application of the 3% cut to all products the 5% cut should apply likewise. He thought that the starting date should be fixed by the Agriculture Council but wondered how long the scheme should last. Van den Broek said the scheme could not apply to all products for ever. Genscher said that the issue would be raised again the next day.

6. Dumas suggested that the solution should last as long as the problem, but said that the question of extent of application and duration needed to be more carefully defined. Most of the issue was decided. Andreotti thought that once this scheme had been accepted German farmers were quite likely to demand more. Ortoli advised against re-opening the MCA package. He acknowledged that duration and product coverage were still in question. Barry did not think that the product coverage was still open but he was unhappy about bringing forward the date of 1 January 1985.

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7. Cheysson concluded that the Agriculture Council decision should remain in force; that the European Council should give a directive to the Agriculture Council so that the decision could be modified; that a greater reduction, ie 5%, seemed justified; the change should probably apply to the same products as the 31 March agreement; and that the issues remaining to be decided were the starting date (1 July or 1 January) and the duration (2, 3 or more years). Riberholdt warned that his government would not be ready to decide the issue on the following day.

8. When Foreign Ministers rejoined Heads of Government Fitzgerald asked whether it was agreed that the Federal German scheme would apply only to the FRG, and Cheysson confirmed that. Ven den Broek suggested that the question of product coverage should be remitted to the Agriculture Council. Cheysson said that he had made clear that the proposal that it should cover all products was only a Presidency proposal.

Budgetary Imbalances

9. After dinner Foreign Ministers continued their discussion of budgetary imbalances. Cheysson advanced once again the Presidency suggestion for two ad hoc years followed by a lump sum and proportion of the remaining gap. This was pressed for some time, but gradually, with help from Dumas and Ortoli, discussion tended towards a consensus that a percentage system should be used. The Secretary of State argued that in that case the UK would need to be compensated for dropping a threshold system by a percentage return well above 70%. No one was prepared to discuss figures in that range. Cheysson concluded that there were two main points of difference: whether there should be a fixed sum for UK compensation in 1985 and whether the system should be based on the French proposal of a fixed amount plus a percentage of the remaining gap or simply a percentage of the whole gap.

C. SECOND SESSION: MORNING AND EARLY AFTERNOON OF TUESDAY
26 JUNE

1. After the formal photograph the European Council resumed at approximately 10.15 am. Mitterrand suggested that discussion continue first on budgetary issues followed by dismantlement of German MCAs again. These issues would either be resolved quickly or the Council would go on to other political points and discuss the procedure for discussion under the Irish Presidency of a European Treaty etc. (In front of each delegation was a specimen of the French version of the common format passport). Mitterrand asked Dumas and Cheysson to outline the position Foreign Ministers had reached the previous evening. There should then be a short table round and if necessary he would call for an adjournment so that he could speak privately to one or two Heads of Government.
2. Cheysson reported that Foreign Ministers had differed over whether there should be one or two fixed years. There should be a system whereby the UK was refunded a percentage of its deficit, but Ministers had differed on whether the whole VAT share/expenditure share gap should be covered or whether there should be a fixed sum plus a percentage of that remaining gap. The third issue was the percentage to be refunded, where the UK wanted more than 70% and the others had not been prepared to go above 60%. The key question was the percentage. If that was settled the rest would follow easily enough.
3. Lubbers began by asking what the position of the FRG was on the system. Would the special key for the FRG apply only in the fixed sum year? Genscher replied that the two-thirds rule for the FRG would apply as he had said in Brussels for the first year, then the system would operate. That was why he had said on the previous day that the FRG would prefer the system as worked out in Brussels. If that was not the way in which the problem was to be resolved and the Council wanted to follow the approach proposed by France, then there could either be a threshold for Germany or an upper limit which would be fixed at the same time as the rest.
4. The Prime Minister said that the European Council had reached a serious moment. Throughout the election period she had been saying that she thought that Britain would get a fair deal. The Government was committed to Europe and would remain so. The United Kingdom made major contributions to the rest of Europe: BAOR, a professional army; the Common Fisheries Policy based on the Community's only common resource; the CAP, where the UK constituted a large market. Although the Common Market in services was mentioned before the CAP in the Treaty of Rome that was so far blocked. The United Kingdom was and would remain a net contributor. Even if there were a two-thirds refund of the true gap, the UK would remain a large net contributor. She thought that she had perhaps been too generous by moving down to the lower gap, VAT share/expenditure share. A consequence of that was the need for a higher percentage to reach the same point. Now it was suggested increasing own resources to 1.4%, it would be even more difficult. The UK had been very loyal, even though gentlemen's agreements had not been honoured. Kohl had referred to his parliamentary difficulties. She had them too. Normally government MPs could be expected to support the Government

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but she now had a rebel motion to contend with. She had been fighting for five years to achieve a solution based on the British characteristics of equity and fairness. For others to demand an increase in unfairness by increasing own resources without resolving the problem was not acceptable. It was vital to have a system. There had to be a text. There could be no more than one ad hoc year. The new own resources would be available at least from the beginning of January 1986. The refund for 1985 would be made in 1986. It could therefore be financed from the new own resources. She could not justify an arrangement under which the new own resources decision made new own resources available, but the United Kingdom was still required to have an ad hoc refund. For this reason she was ready to agree to one ad hoc year in 1984 but saw no reason why there should be a second ad hoc year. The outcome also had to be better than the previous arrangement of a two-thirds refund. On the basis of 1.4% VAT she could not accept a settlement which was less than fair. This was the more so with the prospect of an increase to 1.6%. The result had to be fair.

5. Lubbers said that many delegations would want more than one ad hoc year. For the Netherlands one year would be enough. The amount had been settled at 1,000 mecu before 1984. Everyone could live with that. The second point was the method of calculation. He could agree to using the VAT key. The third point was whether the whole deficit should be compensated or only the growth of the deficit. He noted that the FRG was in favour of a system as described in the Brussels text. He could revert to that with pleasure. But if others objected he would not object to a simplified system. There were two possible approaches as reported by Cheysson. He could accept either. He raised the question of duration. The Brussels proposal had been for a limited number of years. If a very simplified system was used it should be limited in time. One plus four or one plus three years seemed reasonable for such a system. As far as the percentage was concerned nine Member States could go no higher than 60% but the UK wanted more than 70%. In assessing this question the history of the negotiation needed examining. Percentages had been very high. But a degree of degressivity had always been assumed. Without that it was very difficult for him to agree to such high percentages as were now under discussion. And if some figure had to be inserted for the FRG the burden for the others would be higher. If the FRG were unwilling to contribute more than half of their share the other Member States would have to increase their contribution to two-thirds of the whole. It was not sensible to expect them to do that.

6. The Prime Minister repeated that the system had to last as long as the own resources decision, as agreed in the Brussels text. But she could not accept the low percentages being offered. She pointed out that the amounts involved, if shared between the other Member States, reduced their benefit from the Community proportionally, but that represented a far greater burden on the UK as a single Member State. 60% was far too low. At Dublin and after the UK had suggested a percentage of the gap as a basis for compensation. That had not been accepted. Now with a higher own resources ceiling and a smaller gap smaller percentages

were even less acceptable. She was trying to get agreement that would enable her to agree an increase in own resources.

7. Lubbers said that on duration he would gladly go along with the Prime Minister's wording. Mitterrand said that no one had suggested a percentage. 70% would be beyond two-thirds. The question of one or two ad hoc years had still not been resolved. That and the other question left open from the Foreign Ministers' meeting the previous night, the percentage of the gap, needed to be resolved. The Prime Minister pointed out that 75% of the lower gap was the same as 66% of the real gap. Mitterrand said that he had great respect for the Prime Minister's dialectical skill. But most of those present had said that they must regard levies and duties as out of the system. It was significant that everyone reacted the same way to that. He did not want to repeat old arguments, but this problem of correction had arisen four or five years ago merely on the basis of UK difficulties. The UK had joined the Community on the basis of the 1970 own resources text which had varied the Treaty. It was right that Member States should help each other, but it was a matter of wanting to be conciliatory rather than anyone having a right or being entitled to compensation. He wanted to reach a helpful conclusion. If some Member States paid in, the UK, the FRG and soon France, that was the very basis of the Community. If all tried to get back what they put in there would be no more solidarity. One could not get away from the starting point, which was the legal decisions. But he was not insisting on that position. He would make a generous contribution, 55%, 60% or whatever. He was content to accept a solution for a number of years. But a friendly agreement must be reached. Many governments had committed themselves to their parliaments. In France that was not the case, but a parliament had to ratify or refuse to ratify whatever was agreed. Heads of Government had to shoulder their responsibilities. Should the bottom of the negotiating range be 55% or 60%? 60% seemed sensible, what did the British propose at the top of the range? There would be an adjournment and during that period colleagues could tell him their positions. If the percentage agreed was not too high then the issue of one or two ad hoc years could be resolved in the light of that; so he suggested adjourning for private discussion in the hope of being able to record agreement. Kohl asked whether a full discussion would resume before lunch. Mitterrand replied that it would resume at noon or if possible before. Then the German agricultural point could be dealt with before lunch. Martens pointed out that when a percentage was discussed there was a difference according to whether one was discussing a system or not. If there were no threshold, to obtain the result of 1050 mecu the percentage would only need to be 66%. Discussion was adjourned at 11.15 am.

8. In a first bilateral meeting between the Prime Minister, the Secretary of State, Mitterrand and Dumas, Mitterrand would not be drawn to offer more than 60% of the gap. The Prime Minister and the Secretary of State then met Kohl and Genscher. Kohl indicated that he was willing to go up to 65% but no further. Dumas then made it clear to the Secretary of State that Mitterrand would not go as far as the 70% 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. Accordingly the Secretary of State informed Dumas. The Prime Minister informed Kohl. The latter seemed to agree and went to

discuss further with Mitterrand.

9. When the formal discussion resumed at 12.35 Kohl asked his colleagues to imagine what would happen if the European Council broke up without agreement. The whole future of Europe would have been lost. That would not be understood. He had tried to find a way to a compromise for a reasonable period. One should not pre-judge the future in any way. What he had in mind was the period for which the 1.4% VAT ceiling was in force. He would like the solution to be geared to that. He thought that the UK's problem could be solved on the basis of 1,000 mecu for 1984 and thereafter 65% of the gap. The FRG was prepared to make two-thirds of its contribution to the extra cost for the other Member States. The Prime Minister agreed with Kohl on duration. But she questioned 65%. She had said that she could accept two-thirds. She would be grateful if that could be accepted.

10. Mitterrand said that it was not his role to decide. Officials should be asked to put together a text and then a decision could be taken. There were two possibilities: 65% or two-thirds. The matter should be left until the text was ready.

Dismantlement of German MCAs

11. Schlueter said that Kohl had put the case in a very straightforward fashion. All could appreciate the importance of farming in the Federal Republic. This move came very soon after the 31 March Agriculture Council. If it was to be changed, then that should be done by the Agriculture Council. There were other countries in the same position. In 1983 farm income in Denmark had dropped by 18%. Acceptance of a 5% VAT rebate would be seen as a signal throughout Europe for re-nationalisation of the agricultural policy with subsidies galore. He was also anxious about product coverage. The scheme would apply to all products and that could be too much. He thought that Agriculture Ministers should be asked to meet on the basis of Lubbers' guidelines. They should be asked to consider whether the 3% alleviation should be or could be increased on an objective basis. He would be nervous about acting there and then without the advice of Agriculture Ministers.

12. Genscher said that his concern was increased as a result of these remarks. A real opportunity could be missed. He would have liked his colleagues to have seen the row in the German Cabinet after the basic decision on MCA dismantling had been taken. Andreotti said that he would favour supporting the Germans for the political reasons given by Kohl and Genscher. But Italy too needed help in implementing the milk quota regime. They needed time. The UK refund had to be justified. Fitzgerald said that he would accept the German request but needed to be sure that it would not lead to re-nationalisation of the CAP. All other countries must control their farmers.

13. Mitterrand said that it was worth remembering that in the history of the Community it was a habit to play around with VAT rates. There was no golden rule. Werner thought that there was a danger that the decision might lead others to ask for exceptions.

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But he would accept it and not follow the German example. Papandreou could also accept.

14. Lubbers said he could accept political reality. He agreed that the Agriculture Council and the Commission should be asked to re-open the 3% and to provide for full compensation for what had happened in Germany. But to take 5% without any check was unpalatable and he thought unnecessary. But Mitterrand answered that Genscher had already demonstrated the figuring. That should be accepted in good faith. He recorded that a political decision had been taken on the German question and that it now remained to take a decision on the UK's problem.

Budgetary Imbalances

A 15. A draft text was distributed. Mitterrand said that there was disagreement over paragraph 5 where the FRG wanted to add "this shall not be a precedent". Kohl explained that he did not want people drawing the conclusion that what was said now was binding for the future. Andreotti suggested that the last line should be replaced with "the Council will reconsider the whole matter and take the appropriate decisions".

16. The Prime Minister said that those changes would make the text fundamentally contradictory. She was agreeing that so long as the 1.4% ceiling lasted the UK would have to have the system. That was what the text said. It should not be changed. When the 1.4% ceiling was changed then everything could be reconsidered. Kohl agreed. When the 1.4% VAT ran out a totally new negotiation would be needed. Mitterrand suggested that a form of words be found. The Prime Minister said that she did not want a fudge: the present text should be made plain. Mitterrand said that the text meant what the Prime Minister wanted as it stood. The Prime Minister said that it should therefore stand. Mitterrand then ascertained that the FRG could accept the text as it stood. All agreed with their interpretation that when the time came to reconsider everything started from scratch. He then proposed going through the text.

17. Mme Flesch protested at the fourth sub-paragraph of paragraph 1, / On paragraph 2 the Prime Minister said that 66% should replace 5%. Paragraphs 3 and 4 were agreed. On paragraph 5 Andreotti suggested changing to read "the correction formula foreseen in paragraph 2 (second indent) will be a part of the decision to increase the VAT ceiling to 1.4% their durations being linked". The Prime Minister accepted that. Andreotti also suggested a further amendment to the final sentence adding the words "ex novo". There was no dissent.

18. Papandreou objected to the word "control" in line 1 of paragraph 1. Mitterrand referred back to the Brussels text. Papandreou replied that he could accept the text in general, since it was good for the UK and for the Community. He was prepared to accept it provided that the whole package remained intact from Stuttgart and Brussels. He emphasised that in order to deal with IMPs and the structural funds there would have to be an increase in expenditure for them and for new policies. Papandreou also asked about the figure of 1.6% for the second

/which was eventually dropped.

increase in own resources. In reply Mitterrand said that IMPs were covered by the Brussels text. Referring to (unrecorded) remarks by Papandreou he said that variable geometry Europe had never been variable geometry Community. He was thinking of possible extensions of the JET, airbus and Ariane types of cooperation. He assured Papandreou that the 1.6% figure remained a decision, but the German reservation in the present context applied to the decision to increase to 1.4%. He asked whether Andreotti could help over the word "control".

19. The Prime Minister suggested adding to paragraph 3 words which had been in the text originally suggested to the Presidency "with the payments thus counting towards their basis for correction" or simply deleting the paragraph as a whole. In reply to a question from Mitterrand she said that the present text indicated that the VAT share would override the correcting mechanism. She could not agree to that. If there was a different mechanism in paragraph 3 it undermined all that had been agreed. So either the phrase she had read out would have to be added or the paragraph would have to be left out. Mitterrand argued that the text as it was had been agreed by everyone. But he understood the point that the Prime Minister was making. Once agreement had been reached on 66% that should be the basis of the agreement. Lubbers said that he did not really want to take the floor: the argument was shadow-boxing. The UK was entitled to 66% whatever the cause of the gap. Mitterrand suggested dropping paragraph 3 altogether. The Prime Minister agreed, and that was accepted.

20. Fitzgerald asked whether there would be discussion of the 1984 budget, and Mitterrand replied that that would come later. The Prime Minister asked about 1983 refunds: the Foreign Ministers could be asked to agree on that in 30 seconds. Mitterrand replied that if the present text was accepted then the sums due would have to be paid. The Prime Minister replied that those words rang like music in her ears.

B 21. It was then agreed that the words "expenditure policy" should be substituted for "control of expenditure" at the beginning of the text. And the text was thereupon agreed.

Dismantlement of German MCAs

C 22. A new text was circulated. Mitterrand said that this would be examined later in the day. The meeting broke for lunch at 1500.

D. LUNCH DISCUSSION, TUESDAY 26 JUNE

New Commission

1. During lunch there was some discussion of possible new Presidents of the Commission. At the end it seemed that Christoffersen (Denmark), Andriessen (Netherlands), Cheysson (France) and Davignon (Belgium) could be considered declared candidates. Mitterrand suggested that Fitzgerald, as succeeding President of the European Council, should take soundings on the preferences of Member States as had happened four years ago for the appointment of Thorn, and this was agreed.

E. THIRD SESSION: EVENING OF 26 JUNE

EC/ACP Relations

1. When the meeting resumed at 16.45 Mitterrand invited Ortoli to report on the state of negotiations with the ACP. Ortoli argued that the real size of the EDF should be maintained, that the Convention should be extended to Mozambique and Angola, that if Spain and Portugal joined the Community the resources available for the ACP should increase, that something more needed to be done for Nigeria and that action was required on STABEX. All these points involved up-dating the existing Convention. It would be difficult to reach final decisions. Mitterrand stressed the need for urgency and to maintain the real value of the EDF.

2. The Prime Minister said that she was not yet in a position to agree to that. The matter had yet to be discussed in Cabinet. It should go to the Foreign Affairs Council for further consideration. There was only a certain amount of aid money available and it had to be shared around. Mitterrand took her point and said that the matter should be referred to Foreign Ministers for further consideration. But he stressed the need to extend the number of beneficiaries from the EDF. (The draft text on the table was not discussed.)

Citizens' Europe

3. Mitterrand recalled that at the dinner the previous evening it had been agreed to set up a group of representatives of Heads of State and Government to investigate a whole list of topics. Werner had suggested the addition of one - a single document for the passage of goods. There was also the question of passports. The German/French agreement on frontier controls could be extended. At each border crossing there should be only one customs post. Further work was needed on mutual recognition of qualifications. He had also raised the possibility of a European sporting team, a European logo and flag, a Community-wide volunteer service overseas scheme, school exchanges, a European TV station and the possibility of minting an écu to circulate as legal tender. The ad hoc group should be invited to report during the next six months.

4. Ortoli observed that there was no role in that for the Commission. An ad hoc committee could not take over Commission competence. Mitterrand agreed but reaffirmed the need to make progress. He also thought that further work needed to be done rapidly on environmental questions which the ad hoc committee should also discuss although without cutting across Community competence. He thought that there might be a European health area with the major thrust through research programmes. France might follow the Japanese example in organising a colloquium to which other Member States would be invited. The work of the Culture Council should be reviewed. In cultural matters it was not always necessary to have a common policy but it helped to see where Member States could advance together. On industry and research there were three issues: the creation of a legal framework for cooperation of European enterprises, telecommunications and bio-technology proposals, and action in space which had been discussed at the London Summit - a European response to the US suggestion to have Europeans in a US space station was needed. It was a shame to have Europeans as an after-thought in an American programme. Over the next 15 years Europe had to make progress on this. Action was needed on satellites and what have

you". All those who participated in the European Space Agency should seek to make progress.

5. Mitterrand then referred to his ideas for a social Europe where much was to be done. On the re-organisation of working time he noted that a Council recommendation had been approved by nine Member States. Action was also needed on youth unemployment, technical change linked with social change. Discussion of these subjects was unavoidable but he wanted immediately to talk about the Council resolution on the reduction of working time on which agreement was outstanding. He recognised that there were problems in the FRG over a shorter working week and that the UK also had difficulties. The text could not be adopted now but it would be good to have it done soon, say within three months.

6. Lubbers said that he gladly accepted all Mitterrand's ideas. As for working time, he noted that the text had been accepted by the Federal Republic so wondered why the UK could not also accept. The Prime Minister said that the text was so tortuous that she could not accept it. International trade union representatives had been to see her. She had said that she could not accept a charter for a non-competitive cartel. That would be the wrong signal. The text would either give precisely that signal in which case it was unacceptable or it would not give the signal in which case it was not necessary. She recommended that the text be referred back to Social Affairs Ministers or be dropped. Mitterrand said that it was because of UK feeling that he had presented the subject in so tentative a way. Genscher said that the FRG could not agree the text either. It would be the wrong signal to give at this stage of a strike on this very issue.

7. Lubbers noted that the FRG had raised a new objection and that the UK had condemned the text in round terms. In the Netherlands the unions contributed to economic growth, so he could not join Mrs Thatcher in an anti-union cartel. Mrs Thatcher protested that she was not suggesting any such thing but repeated that the text should be referred back to Ministers. In its present form it gave the wrong message. Lubbers asked whether it was only the work-sharing part that was wrong, and the Prime Minister said that there was much more in it with which she could not agree.

8. Craxi proposed that in the circumstances the European Council should merely make reference to the issue in the text on new policies. Ortoli said that he could accept that. He undertook to look at the text. Craxi suggested the addition of the words "and organisation of production" at the end of the fourth paragraph of the new policies text (which had not until then been discussed). (Mitterrand reluctantly agreed.)

9. Lubbers recalled that the Prime Minister had said that she had suggestions to make on the text. There was no point in arguing the points there and then, but he urged the Prime Minister to instruct her Minister to make his suggestions for amendment so that the resolution could be adopted.

New Policies

10. Kohl and Craxi began by asking what certain passages in the draft circulated by the Presidency meant. Mitterrand did not try to answer but suggested that the text be remitted to Ministers or the ad hoc group. After further questioning he agreed that the text

was not good and that it be disregarded. He withdrew the whole text because it was too imprecise and vague.

Dismantlement of German MCAs

- F 11. Kohl circulated a revised text. Lubbers said that he did not object to taking a decision on the problem, but he would add one thing. If the same problem were to arise in the Netherlands he would ask for similar treatment to be accorded to his country. Mitterrand said that that was noted. He did not want every Member State to say the same thing. The text was agreed without further consideration.

Own Resources and Enlargement

- G 12. Mitterrand read out the draft text which had been circulated and suggested that a passage might be added on Mediterranean policy. He pointed out that paragraphs 1 and 2 (on own resources) had already been decided at Brussels.

13. Fitzgerald asked that the reference to completing the enlargement negotiations by 30 September should be changed from "will have to be" to "should be". Thorn argued that on enlargement the own resources ceiling would need to be increased. Did the European Council want a repeat of the present negotiation? Was it right to spirit off the second increase? It would be better to submit for parliamentary ratification the single increase to 1.6% subject to Council decision for the increase above 1.4%. Mitterrand repeated that those paragraphs had been decided at Brussels and were not to be re-opened.

14. Fitzgerald also asked for the insertion of a phrase on the conservation of fish stocks, and Lubbers asked for the addition of the phrase "and by bringing about a reasonable balance between arrangements for the agriculture and industrial sectors" at the end. Mitterrand accepted both suggestions, and the text was agreed as amended.

1984 Budget

15. Thorn asked for agreement in principle that the 1984 budget should be put in place on the basis of advances corresponding to the normal VAT key. Mitterrand urged that the principle at least should be accepted. The Prime Minister pointed out that there were many ways of dealing with the over-run: agricultural economies and the suggestions in the Audit Court Report. The subject had already been discussed in the Foreign Affairs Council and remitted to the Budget Council. This was not the sort of subject to be discussed in the European Council. The suggestion of advances was of doubtful legality under Article 199 of the Treaty. The matter should be considered in the proper Council. Mitterrand replied that something would have to be done about this subject. But the Prime Minister was absolutely right on the detail. It was not the European Council's task to deal with the detail. It should just say that the problem needed to be sorted out in order to avoid bankruptcy in the Community.

Political and Institutional Subjects

16. Mitterrand said that the Commission and Council both had their own job to do. The Genscher-Colombo act had referred to a political secretariat. Perhaps those who serve the Council now could serve in that capacity as well. As for voting/unanimity, there were differing views. Some order was needed. A half-way house needed to be found, but not there and then. Such questions had been considered in the past by the Spaak Committee. Some such procedure was needed again, since no-one could say who was right and who was wrong: personal representatives of Heads of Government. Kohl gave full support - such a procedure would not preempt any decisions. The best people should be appointed, from outside the institutions. They should report reasonably soon. Schlueter acknowledged the balance of Mitterrand's approach, which recognised some Member States' reservations. He was quite ready to agree to discussion in the way Mitterrand had suggested.

17. The Prime Minister recalled that these were vital questions. Her party had fought an election on the basis of the Treaty and the Luxembourg Compromise. Her government was bound by that. A Member State must be able to insist that discussion continue, but it should explain its reasons. She was perfectly ready to discuss the subject, as well as proposals she had herself advanced in her own paper. The UK would be glad to join in any such discussion. Martens thought an economic programme for the Community needed also to be worked out. Van den Broek thought there was enough to do in the institutional field. Who was going to set the group's terms of reference? He attached importance to political cooperation but had problems with the Presidency's draft text (on a political cooperation secretariat). Mitterrand indicated that the draft was to be withdrawn and the matter remitted to the group, which might be named after Fitzgerald who had suggested its establishment. Werner welcomed the proposal to establish a group on the decision-taking procedure. There could be no question of amending the Treaty, but a return to the Treaty would be an improvement. He commented that the new European Parliament would no doubt wish to proceed on the basis recommended by the present one.

Other Business

18. Mitterrand asked if anyone had other issues to raise. Papandreou asked for confirmation of the Community's position on Cyprus, its own decisions and those of the UN, specifically SCR550. Mitterrand thought there was no harm in that, and no-one objected. Haralambopoulos then complained that a text on the Olympic Games handed in 1½ hours earlier for translation had not been dealt with. It said that because of the politicisation and over-commercialisation of the Games they should revert to their origin in Greece. He referred to the EP Resolution of May 1984, which he suggested the European Council should also adopt. Mitterrand said that could not be discussed. The European Council could not adopt a resolution on a subject for which it was not prepared.

19. Craxi wondered about the draft text from the March meeting on the Middle East. He could confirm it. Mitterrand responded that it would need to be re-examined line by line.

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20. Ortoli noted that nothing had been said on the economic and social situation. There was a general feeling that it should be discussed on the following occasion. Nor had there been any decision on new policies. He hoped the earlier texts could be regarded as re-affirmed, including those on tele-communications and biotechnology. Mitterrand stated that agreement on the British contribution triggered all the other agreements reached earlier in the negotiation. That might cause misgivings, but the package as agreed at Brussels resurfaced. All the new policies on which agreement had been reached at Brussels were thus revived.

Conclusion

21. Mitterrand thanked all present for coming to France and for participating in the discussion in such a friendly way. He would leave his role as President with great regret. It would now be up to Fitzgerald. Fitzgerald in turn thanked Mitterrand for his work. He had inherited the Community at a difficult moment. A great deal had been done on agriculture and the budget. He had presented the Community with new challenges. Mitterrand concluded with the observation that the reason progress had been possible was that he had inherited good work from Athens and Stuttgart and many Member States had needed to sacrifice their own interests.

22. The meeting finished at approximately 1900, and a Foreign Affairs Council was called in the same room to approve the three Regulations to implement the UK's 1983 refunds.

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