

FRAME ECONOMIC

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~~SECRET OFFICE~~
MR D FERGUSON
MR G STAFFORD
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MR T E BARR

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~~THE TREASURY~~
MR J B DUNN
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MR J E MORTIMER
MR G. HOPKINSON

MAFF

PERMANENT SECRETARY

MR POWELL
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FM UKREP BRUSSELS 271710Z JUN 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 2205 OF 27 JUNE
INFO PRIORITY COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS
INFO SAVING LISBON MADRID STRASBOURG WASHINGTON.

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DISCUSSION OF BUDGETARY IMBALANCES AT FONTAINEBLEAU.

1. YOU MAY LIKE TO HAVE A SLIGHTLY FULLER ACCOUNT OF THE DISCUSSION LEADING UP TO THE SETTLEMENT, TOGETHER WITH SOME IMPRESSIONS OF THE ATTITUDES OF OTHER DELEGATIONS. BUT YOU AND THE PRIME MINISTER OF COURSE KNOW STILL MORE OF THE STORY THAN I DO.
2. DUMAS, WHO PLAYED THE CENTRAL ROLE ON THE FRENCH SIDE, WAS DETERMINED TO GET A SETTLEMENT ON THE BASIS OF A PERCENTAGE REFUND RATHER THAN A THRESHOLD SYSTEM AS IN THE MARCH CONCLUSIONS. THIS WAS PARTLY BECAUSE HE BELIEVED THAT IT WOULD BE EASIER TO SELL IT TO THE OTHER MEMBER STATES BUT ALSO BECAUSE THE FRENCH WERE DETERMINED NOT TO GIVE GERMANY ANYTHING EXCEPT A ONE-THIRD ALLEVIATION OF THE BURDEN OF PAYING FOR U K REFUNDS. MITTERRAND SEEMS TO HAVE DECIDED IN ADVANCE THAT HE WAS GOING TO GO FOR AN AGREEMENT, BUT ONLY ON CONDITION THAT HE COULD REPRESENT THE OUTCOME AS BEING ONE IN WHICH THERE WERE NEITHER VICTORS NOR VANQUISHED. POLITICAL MOTIVES THEREFORE REINFORCED FINANCIAL ONES IN MAKING THE FRENCH UNWILLING TO CONCEDE A PERCENTAGE REFUND OF MORE THAN TWO-THIRDS.
3. MITTERRAND ALSO WANTED TO AVOID PLACING THE SUBJECT AT THE CENTRE OF THE AGENDA, AN AIM IN WHICH HE HAD ONLY PARTIAL SUCCESS. THE SHORT DISCUSSION HE ALLOWED ON MONDAY EVENING, AFTER THREE HOURS ON THE LONDON SUMMIT, HIS VISIT TO MOSCOW AND KOHL'S TO HUNGARY, WAS SIMPLY DESIGNED TO LAUNCH THE DISCUSSION. DUMAS

HUNGARY, WAS SIMPLY DESIGNED TO LAUNCH THE DISCUSSION. DUMAS BEGAN BY PUTTING UP THE AUNT SALLY OF A NEW AND COMPLETELY UNACCEPTABLE SOLUTION ABOUT WHICH HE HAD WRITTEN TO YOU ON SUNDAY. IN MY VIEW IT WAS NOT MEANT TO FORM THE BASIS FOR AN AGREEMENT BUT WAS SOMETHING DESIGNED TO USE UP SOME OF OUR EFFORT BEFORE IT DIED. THE PRIME MINISTER INDICATED A STRONG PREFERENCE FOR THE THRESHOLD ARRANGEMENT DISCUSSED IN MARCH BUT DID NOT DISMISS THE POSSIBILITY OF THERE BEING A ZERO THRESHOLD FOR THE U K, A SIGNAL WHICH AT LEAST SOME OTHER DELEGATIONS PICKED UP. GENSCHER ALSO SPOKE UP FOR THE MARCH SYSTEM. AS PLANNED, MITTERRAND THEN REMITTED THE LETTER TO FOREIGN MINISTERS TO DISCUSS LATER IN THE EVENING.

4. DESPITE YOUR EFFORTS AND, I THINK, THOSE OF DUMAS, THE FOREIGN MINISTERS WERE VERY SLOW TO GET DOWN TO IT. THEY DID NOTHING AT DINNER AND CHEYSSON STARTED ON OTHER SUBJECTS WHEN THE FOREIGN MINISTERS MET AFTERWARDS. WHEN HE DID START ON THE BUDGET, HE PUT UP THE AUNT SALLY AGAIN BUT ONLY FOR FORM'S SAKE. BY ABOUT 10.30 PM THE SITUATION WAS CAUSING CONCERN TO THE PRESIDENCY AND THE COMMISSION. SITTING IN THE COURTYARD AT THE HOTEL BAS-BREAU TALKING TO BIANCO AND ATTALI ON OTHER MATTERS, I WAS WELL-PLACED TO FIND OUT HOW THE FOREIGN MINISTERS WERE DOING AND WHEN HE REPORTED THAT THEY WERE NOT, WALKED ACROSS HIMSELF TO TRY TO GIVE THINGS AN IMPETUS. HE LATER SENT KOHL OVER FOR THE SAME PURPOSE. IT IS NOT CLEAR TO ME WHY CHEYSSON PLAYED THINGS SO SLOWLY. PERHAPS NO ONE HAD TOLD HIM THE FRENCH PLAN. HE WAS CERTAINLY COMPLETELY OUT OF THE NEGOTIATIONS WITH DUMAS IN CHARGE. (A FRENCH OFFICIAL, SEEING THEM TALKING TOGETHER THE FOLLOWING MORNING, COMMENTED THAT THIS FRANCO-FRENCH CONFERENCE WAS EVEN LESS LIKELY TO SUCCEED THAN THE EUROPEAN COUNCIL ITSELF).

5. THE FOREIGN MINISTERS' AFTER-DINNER MEETING WAS NEVERTHELESS OF GREAT IMPORTANCE. DUMAS (WITH ORTOLI'S HELP) MANAGED TO MOVE THE MEETING TOWARDS A CONSENSUS THAT A PERCENTAGE SYSTEM SHOULD BE USED, THOUGH OUR NEGOTIATING POSITION THAT WE SHOULD NEED TO BE COMPENSATED FOR DROPPING A THRESHOLD SYSTEM BY A PERCENTAGE RETURN WELL ABOVE 70 PER CENT CAUSED DISMAY AMONG OTHER DELEGATIONS. THE SMALLER COUNTRIES FELL OBEDIENTLY INTO LINE BEHIND THE FRENCH. NO ONE PUSHED SERIOUSLY FOR A SETTLEMENT THAT EVENING. ALL THE SAME, AS CHEYSSON BRIEFED THE PRESS, AN OUTLINE WAS BEGINNING TO EMERGE FROM THE MIST.

6. AFTER THE MEETING WE GOT AT THE FRENCH AT THE OFFICIAL LEVEL TO TRY TO NEGOTIATE A TEXT PRESERVING THE ESSENTIAL ELEMENTS OF THE MARCH PRESIDENCY DOCUMENT, SUCH AS RELATING PAYMENTS TO ABILITY TO PAY, REFUNDS ON THE REVENUE SIDE AND THE ARRANGEMENT TO FORM PART OF THE NEW OWN RESOURCES DECISION, THEIR DURATIONS BEING LINKED. BUT LEGRAS (WHO HAD REVEALED HIS PERSONAL IDEAS TO RENWICK EARLIER IN THE DAY) NEEDED AUTHORITY FROM DUMAS, AND DUMAS NEEDED TO CLEAR HIS LINE WITH THE ELYSEE, SO THAT BY 2 AM THE BEST LEGRAS COULD OFFER WAS A MEETING AT 7.30 ON TUESDAY. ON THAT OCCASION WILLIAMSON AND RENWICK WERE ABLE TO SECURE LEGRAS' AGREEMENT TO MUCH OF WHAT WE WANTED, INCLUDING A VERBAL UNDERTAKING TO MAKE IT CLEAR THAT VAT SHARES WOULD BE ON A PAYMENTS BASIS. BUT LEGRAS CONTINUED TO TRY TO PROMOTE A TEXT UNDER WHICH THE U K WOULD HAVE CONTRIBUTED NORMALLY TO ANY OWN RESOURCES ALLEVIATIONS FOR SPAIN AND PORTUGAL AND EVEN TO ANY ALLEVIATIONS FOR GERMANY IN REGARD TO FINANCING OUR REFUND.

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7. KOHL AND MITTERRAND HAD BREAKFAST TOGETHER AS USUAL AND THE RESULTS WERE, AS TIETMEYER MADE CLEAR TO ME, DISASTROUS FOR THE GERMAN FINANCE MINISTRY. THE GERMANS HAD ARRIVED IN FONTAINEBLEAU HAVING FINALLY AGREED AMONG THEMSELVES THAT MORNING THAT THEY WOULD HAVE A GO AT GETTING A THRESHOLD SYSTEM WITH A LIMIT FOR GERMANY. BUT IT WAS ALREADY CLEAR THAT KOHL'S HEART WAS NOT IN IT, AND HE MADE NO SERIOUS EFFORT TO PERSUADE MITTERRAND TO BACK IT AT BREAKFAST. HE DID NOT EVEN AT THAT STAGE GET AGREEMENT THAT GERMANY SHOULD ONLY CONTRIBUTE TWO-THIRDS OF ITS NORMAL SHARE OF THE BRITISH REFUND. TIETMEYER ALSO TOLD ME THAT HE SUSPECTED THAT KOHL HAD SOLD THE PASS TO MITTERRAND ON EARLY RATIFICATION OF THE NEW OWN RESOURCES DECISION SO THAT IT COULD ENTER INTO EFFECT IN THE AUTUMN OF 1985.

8. THE EUROPEAN COUNCIL ITSELF RESUMED ON THE BUDGET QUESTION AT ABOUT 10.15. THE PRIME MINISTER WAS READY TO NEGOTIATE ON THE BASIS OF A PERCENTAGE ARRANGEMENT BUT ARGUED FORCIBLY FOR OVER 70 PER CENT. MITTERRAND SOON ADJOURNED FOR BILATERALS. WHILE IT WAS CLEAR THAT DUMAS WAS WORKING FOR A FINAL AGREEMENT ON A TWO-THIRDS REFUND, MITTERRAND TOOK A TOUGH LINE WITH YOU AND THE PRIME MINISTER AND WOULD NOT MOVE ABOVE 60 PER CENT AT THAT STAGE. KOHL AND GENSCHER (DESPITE TIETMEYER'S EFFORTS BEFOREHAND) MOVED TO 65 PER CENT BUT NO FURTHER. WHILE THIS CONVERSATION WAS GOING ON MITTERRAND WAS TELLING ERSBOLL AND POSSIBLY A GROWING HUDDLE AROUND HIM OF OTHER HEADS OF GOVERNMENT (WHETHER FOR PASSING ON TO US OR NOT, ERSBOLL WAS NOT SURE) THAT AGREEMENT WOULD NOT BE POSSIBLE AND THE COUNCIL MUST SOON MOVE ON TO OTHER MATTERS.

9. THE PRIME MINISTER THEN APPRAISED THE SITUATION AND CAME TO THE CONCLUSION THAT A DEAL COULD ONLY BE DONE ON THE BASIS OF A TWO-THIRDS REFUND. YOU WENT TO TELL DUMAS THIS AND WHEN WE RETURNED TO THE MAIN COUNCIL ROOM DUMAS WAS REPORTING TO THE PRESIDENT, ATTALI AND OTHERS ON WHAT YOU HAD SAID. A FRENCH HUDDLE, WITH ATTALI HOLDING FORTH ELEGUENTLY TO MITTERRAND, LASTED QUITE ALONG TIME. MEANWHILE THE PRIME MINISTER JOINED THE GERMAN CORNER AND EXPLAINED OUR POSITION TO KOHL. GENSCHER, LAUTENSCHLAGER AND FISCHER SPOKE IN SUPPORT OF A TWO-THIRDS REFUND AND KOHL SEEMED TO AGREE. HE THEN WENT OFF TO TALK TO MITTERRAND AND DUMAS WITH HIS SUPPORTERS AND SECURED AGREEMENT TO THE ONE-THIRD RELIEF FOR GERMAN CONTRIBUTIONS TO OUR REFUND. WILLIAMSON MEANWHILE HAD A WORD WITH ANDREOTTI WHO SAT IMPASSIVE AND ALONE THROUGHOUT THE BREAK : HE DID NOT REACT TO THE TWO-THIRDS FIGURE.

10. WHEN THE COUNCIL RESUMED, KOHL HOWEVER PROPOSED 65 PER CENT FOR THE U K (WHETHER ON HIS OWN OR ON MITTERRAND'S INITIATIVE WE MAY NEVER KNOW). THE PRIME MINISTER EVENTUALLY MANAGED TO GET THE COUNCIL TO SETTLE FOR 6 $\frac{2}{3}$ PER CENT.

11. MEANWHILE ARGUMENTS ON THE TEXT CONTINUED OUTSIDE. A VERSION APPEARED WHICH FAILED TO PLACE VAT ON THE PAYMENTS BASIS : BUT WHEN I PROTESTED THE COUNCIL SECRETARIAT GOT LEGRAS' AUTHORITY TO CHANGE IT IN OUR FAVOUR. BUT WE WERE NOT ABLE TO ELIMINATE UNDESIRABLE SENTENCES ON ENLARGEMENT AND GERMAN REFUND, AND THE PRIME MINISTER HAD TO GET THE EUROPEAN COUNCIL TO AGREE TO DROP TEXTS ON THESE POINTS WHICH WOULD HAVE COST US SEVERAL HUNDRED MILLION POUNDS OVER THE YEARS

TEXTS ON THESE POINTS WHICH WOULD HAVE COST US SEVERAL HUNDRED MILLION EUCS OVER THE YEARS.

12. THE LUXEMBOURGERS WITH BELGIAN SUPPORT ATTACKED THE MARCH PARAGRAPH ABOUT THE ADMINISTRATIVE EXPENSES AND THE PRIME MINISTER WAS READY TO LET IT DROP ON THE BASIS THAT THE LAST SUB-PARAGRAPH OF SECTION 1 REFERS TO QUOTE THE SHARE OF EXPENDITURE ALLOCATED IN ACCORDANCE WITH THE PRESENT CRITERIA UNQUOTE, THUS MAKING THE OTHER PARAGRAPH REDUNDANT. ODD, BUT NOT DAMAGING, AMENDMENTS WERE PROPOSED TO THE LAST PARAGRAPH BY ITALY AND OTHERS.

13. THE COUNCIL FINALLY COMPLETED DISCUSSION OF THE SATISFACTORY TEXT IN UKREP FONTAINEBLEAU TEL NO 3 AT ABOUT 3.00 PM, AND HEADS OF GOVERNMENT WENT TO LUNCH.

14. THE ONLY REAL PLAYERS IN THIS FINAL END-GAME OF THE 5-YEAR MATCH WERE THE FRENCH, THE GERMANS AND OURSELVES. THE OTHERS OCCASIONALLY SKIRMISHED ON THE EDGES BUT DID NOT MOVE THE BALL. THE FRENCH WON THEIR GAME WITHIN THE GAME AGAINST THE GERMANS - TO OUR ADVANTAGE SINCE WE WOULD HAVE TO HAD TO CONTRIBUTE TO THE POTENTIALLY LARGE REFUNDS THE GERMANS MIGHT HAVE SECURED UNDER A THRESHOLD SYSTEM. (TIETMEYER BEWAILS A LIKELY GERMAN NET CONTRIBUTION OF WELL OVER 5,000 MECUS WELL BEFORE 1986. THOUGH WE CONCEDED A LITTLE ON THE SIZE OF OUR REFUND AND SECURED SOMETHING LESS THAN A FULL COMMUNITY-WIDE SYSTEM, WE ACHIEVED ALL OUR OTHER MAIN NEGOTIATING AIMS OF ESTABLISHING THE PRINCIPLE THAT CONTRIBUTIONS SHOULD TAKE ACCOUNT OF RELATIVE PROSPERITY, AND OF AUTOMATICITY, DURABILITY, REDUCTION OF VAT IN THE FOLLOWING YEAR AND INCORPORATION IN THE OWN RESOURCERS DECISION. NO ONE IN THE INSIDE IN BRUSSELS IS IN ANY DOUBT ABOUT WHO WERE THE WINNERS. AT COREPER LUNCH TODAY THORN, LEPRETTE AND FIVE OR SIX OF MY OTHER COLLEAGUES CONGRATULATED ME ON THE PRIME MINISTER'S VICTORY - FORGETTING IN PRIVATE THEIR PUBLIC LINE THAT THERE WERE NO VICTORS OR VANQUISHED

FCO ADVANCE TO:

FCO - PS PS/MR RIFKIND PS/PUS TICKELL RENWICK
CAB - WILLIAMSON
TSY - UNWIN
NO.10 - POWELL

FCO PASS SAYING TO LISBON MADRID STRASBOURG AND WASHINGTON.

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