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RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND MONSIEUR DUMAS
AT 4.30 p.m ON WEDNESDAY, 8 FEBRUARY, 10 DOWNING STREET

Present:

Prime Minister
Mr. Rifkind
Sir John Fretwell
Mr. Williamson
Mr. Coles

M. Dumas
The French Ambassador
M. Perrin de Birchamnant
M. Legra
Interpreter

The Prime Minister said that the European Council at Stuttgart had established a broad approach to the fundamental problems facing the Community, namely the need for strict budgetary control, surplus agricultural products and a fair distribution of the budgetary burden. There had been no suggestion at that meeting that the Community should run away from the problems by raising more money to finance agricultural surpluses. By contrast the Athens Council had been most disappointing, despite a good deal of preparatory work. As soon as the Council had addressed the details of the problems, the participants had not been prepared to face up to the issues. Since they found it difficult to cut down surpluses, they had looked for a means of financing them. Such progress as had been made on the question of budgetary imbalances had been overturned. M. Delors' proposals for overall control of Community expenditure had got nowhere, despite the support we had given to them. We had, of course, insisted that his proposals would have to be incorporated in the budgetary procedures of the Community.

The need to change the Community's system of financing had arisen before. The present system was not part of the Treaty of Rome but was based on the 1970 decision on own resources. People now wished to change the 1970 decision because they sought a rise in the VAT contributions of member states. Britain also wanted a change but for the reason that the present system was totally inequitable. If there was to be any change in the level of VAT contributions, there must also be a change in the distribution of the burden. The one could not be had without the other.

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The Community could not continue with its present practices. It would shortly run out of money. The Treaty of Rome contemplated agricultural surpluses. It stipulated that there should be reasonable arrangements of procedures at fair prices for consumers. Nor had the Treaty contemplated that the Community would be used as a protectionist device - it had envisaged the breaking down of barriers to trade. It was very disappointing that people had refused to face the problems at Athens. But she would pursue the fundamental issues. The Community could not survive unless these were dealt with.

She knew that President Mitterrand wished to reach a solution in Brussels. When he had visited London last October he had said that if the Athens Council did not solve the problems there would be little hope of achieving this between January and June because member states would find it hard to make concessions in the run up to the European elections. But the President now seemed to believe that another failure at Brussels would be damaging to the Community as a whole.

There was not much time to reach solutions and she was not over optimistic. Her impression from her recent meetings with President Mitterrand and Signor Craxi was that they had not changed their positions. M. Dumas said that he had received an account of the Prime Minister's talk with President Mitterrand. He agreed that a solution must be found at the March Council. Britain and France were in agreement on a number of points as would be apparent from the speech made by President Mitterrand yesterday in the Hague.

The President believed that the time had come to limit the increases in the EC budget. One could not ask for sacrifices nationally while the EC budget increased without reasonable control. To achieve this aim, a technique had to be found which took account of the provisions of the Treaty and which respected the rights of the European Parliament. It was necessary to establish a majority pact which would keep the EC budget within reasonable limits.

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France agreed that agricultural surpluses must be reduced. But the point of divergence between us was that in the French view the reduction of surpluses must be achieved progressively, in a short period, and take account of the agricultural structures of certain countries, especially France.

As regards the problem of budgetary imbalances, France agreed with the United Kingdom that this should not be linked with the general problem of budgetary control. If agreement could be reached on the latter, the Community must at the same time, but separately, establish a system of budgetary equity. Several proposals had been made. The French Government was examining the figures and the implications.

With regard to the problem of own resources, France could not accept that the budget should be increased unreasonably through decisions to increase expenditure. But it felt that if there was to be a system of budgetary control, there would have to be provision for an increase in own resources if only to meet the new expenses of the European Community such as would arise from enlargement (if enlargement was to take place).

More generally, he believed that the compromise reached at Stuttgart was useful. On the other hand, one should not completely reject everything which had emerged at Athens. As President Mitterrand had said, progress had been made there. It was the French hope that by the March Council as much progress as possible could be made on the main subjects to which he had referred - and that accordingly the European Council would not need to enter into details as at Athens but could take decisions on the main questions, namely:

- (a) How and to what extent should the overall budget be controlled?
- (b) What procedures could be used to ensure equitable budget contributions?

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(c) How should milk consumption be reduced, by how much and over how many years?

(d) By how much should VAT contributions be raised?

Did the Prime Minister think that this was a reasonable approach?

The Prime Minister said that she failed to understand the reference to the progress made at Athens. There had been none. The Council could not agree on a target for milk production. Italy would not accept guaranteed thresholds. It had even taken the view that the Community should first decide what to spend in the future and by that route determine the required increase in own resources. There had been a discussion between France and Germany on MCAs. But we were not involved and we had an interest in the consequences of any agreement lest they were to be inflationary. The Council had fought shy of strict financial guidelines despite the proposals of M. Delors. Many suggestions had been made for increasing own resources. But even a 1.4 per cent VAT contribution represented a 40 per cent increase and she was by no means confident that some governments would not spend it all at once. With regard to milk, Ireland had refused to accept a super levy and she had been obliged to insist that there could be no discrimination. On the question of an oil and fats tax, we had refused to accept this proposition which was designed to finance the milk surplus and would fall heavily on consumers.

At the European Council in March, she would wish to look at every detail. She was not prepared to sign anything until she knew its full implications. M. Dumas suggested that this meant that there should be detailed negotiations before the Council and the Prime Minister agreed.

Continuing, the Prime Minister said that there was no question of her agreeing to any increase of own resources until she knew
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the rest of the package. There was the basic difficulty that the countries which produced surpluses wanted these to continue and to be paid for by Germany and Britain. She had always regarded these negotiations as an opportunity to solve fundamental problems and make the Community more efficient. There was still no common market in services because it suited some countries who benefited from agricultural surpluses to oppose such a development.

M. Dumas said that until the current obstacles were removed we could do nothing for the future of the Community. President Mitterrand had launched the idea of "new policies". He had referred to "industrial Europe". Clearly, in this area the United Kingdom and France, either bilaterally or together with others, could establish policies for the future. But that also required money. France would wish to be sure that if new money became available it was devoted to new policies in the fields of research, technology and space rather than to the financing of surpluses.

The Prime Minister commented that if the surpluses were abolished, there would be sufficient money for all these policies without an increase in VAT. The latter increase was needed for enlargement. But in all areas of Community expenditure, including research, it was necessary to examine and justify the existing activities.

Athens had revealed the danger of patched up compromises, which were devoid of merit. All such compromises avoided the fact that the United Kingdom and Germany could not continue to finance the Community. She was concerned at the lack of evidence of will to tackle these problems. She did not underestimate the task concerning M. Dumas.

M. Dumas said that France was going to attack surpluses but wished Britain to understand that this must be done progressively. He felt that if Heads of Government could reflect on the basic questions which he had listed, this would be a starting point. He found European Community procedures cumbersome. The solemn multilateral discussion was not well designed to produce results. He would prefer to deal first by way of bilateral contacts. Each of the member states would have to yield a little and that

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could only be done in bilateral exploratory discussion. So he hoped for frequent discussion with the Prime Minister to establish how far she was prepared to go.

The Prime Minister commented that Signor Cossiga had, as President of the Council, conducted negotiations on the budget problem in a similar way. She repeated that the United Kingdom and Germany were the only net contributors to the European Community. M. Dumas commented that France would soon be in this position. The Prime Minister said that it was ridiculous to subsidise the Danes and the Dutch more generously than we subsidised India. She believed that everyone should pay a subscription to the club. She did not expect to avoid one herself. But the budgetary arrangement must be based on ability to pay. The next generation in Germany would resent an unduly large burden.

Towards the end of the Athens Council we had suggested a formula by which, in the first year, France and the United Kingdom would contribute about 500 million ecus net each to the budget. We had hoped that this would secure French agreement since in theory France should pay more. After the first year, our contribution would be determined by relative prosperity. We might be prepared to yield a little with regard to the corn gluten problem if that stood in the way of an agreement. But it would be necessary to discuss prospective limits on imports with the United States. Mr. Williamson commented that the French and British positions on this issue were closer than they had once been.

M. Dumas said that with regard to milk Britain wished to take action on prices. The French approach was slightly different. It started from the basic idea of the Treaty of Rome and the CAP that there should be a decent income for farmers. It was necessary to abide by that principle so that farmers could attain a reasonable living from their production, especially of milk. He agreed, however, that after a certain level of production had been reached, prices should not be such as to create surpluses.

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So France wanted a price policy which gave farmers a reasonable income together with a system of discouraging production above a certain level. The Prime Minister commented that it was not rational to put farmers in a position where, whatever their production, prices were geared to give them a reasonable income. M. Dumas said that that had been the system established in 1958 when agricultural production in Europe had been inadequate and the income of farmers low. The Prime Minister commented that only some 30 per cent of EC farmers obtained their main income from farming. M. Dumas said that 50 per cent of small farmers produced less than 60,000 kilos of milk per year. The Prime Minister observed that it was good to give encouragement to small farmers but this should be done by way of a social grant and not by price fixing that upset the whole agricultural economy.

Reverting to the problem of budgetary imbalances, M. Dumas said that France accepted that it was not sufficient to solve the problem for one year. A fair solution was required. Overall control of budgetary expenditure was one way of helping with the problem. The Prime Minister said that she thought there might be a fundamental misunderstanding. If there was to be any increase at all in own resources, this would have to be linked with a totally different system of financing. There was no question of divorcing the two. The solution must last as long as the problem. Overall control of Community expenditure was inadequate. M. Dumas said that he thought that the Prime Minister had misinterpreted President Mitterrand's remarks to her on this subject. He agreed that the problem of budgetary imbalances could not be solved by dealing with the problem of overall control of expenditure. What was the Prime Minister's position on budgetary imbalances? The Prime Minister said that we had put forward a complete proposal at Athens which established a limit to budgetary contributions which was related to the ability to pay, the adjustment being made by reducing VAT contributions in the following year. In order to finance repayments, the countries concerned would contribute in relation to a special key. In

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particular, she had suggested that in the first year France and Britain would contribute about 500 million ecus.

Mr. Williamson commented that France had also accepted the idea of a special key for financing relief and the idea of adjustments being made to VAT contributions.

The Prime Minister confirmed that we stood by the proposition we had made. She believed that it should now be put to other governments because a large measure of agreement had been established at Athens.

The discussion ended at 5.45.

A.J.C.

8 February, 1984

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