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TO IMMEDIATE PARIS (PERSONAL FOR AMBASSADOR)
TELEGRAM NUMBER 155 OF 24 FEBRUARY
INFO UKREP BRUSSELS (PERSONAL FOR AMBASSADOR)
INFO BONN (PERSONAL FOR AMBASSADORS)

EUROPEAN COMMUNITY: TALKS IN LONDON WITH M DUMAS
SUMMARY

1. I HAD A WORKING BREAKFAST WITH DUMAS ON 24 FEBRUARY. LEGRAS AND HANNAY WERE PRESENT. THIS WAS A FOLLOW-UP TO MY MEETING WITH HIM ON 8 FEBRUARY (MY TEL NO 120), HANNAY'S MEETING WITH LEGRAS (PARIS TEL NO 197 NOW BEING COPIED BY BAG TO BONN) AND LAST WEEKEND'S MEETING AT LA CELLE ST CLOUD. ON BUDGET DISCIPLINE, OUR AND FRENCH POSITIONS ARE CLOSE (THE FRENCH WILL PRODUCE A PRESIDENCY TEXT WHICH THEY WILL SHOW US). ON BUDGET IMBALANCES, I MADE CLEAR OUR OBJECTIONS TO THE FRENCH SCHEME BASED ON THE VAT/EXPENDITURE SHARE GAP. THE FRENCH ARE WILLING TO IMPROVE THE PARAMETERS OF THE SCHEME. BUT THE CRUNCH WILL CLEARLY COME ON NUMBERS AND/OR ON THE ISSUE OF WHETHER GERMANY IS INCLUDED. ON CAP, DUMAS ARGUED FOR A PHASED REDUCTION OF MILK PRODUCTION OVER 3 YEARS AND SPECIAL TREATMENT FOR SMALL FARMERS. I OPPOSED BOTH. I GAVE DUMAS A PAPER ON OUR NEW POLICIES PRIORITIES AND URGED A PASSAGE ON NEW POLICIES IN THE TEXT FOR THE MARCH EUROPEAN COUNCIL. OVERALL, THE MEETING MADE SOME USEFUL PROGRESS AND DUMAS AND I HAVE AGREED TO MEET AGAIN FOLLOWING PRESIDENT MITTERRAND'S VISIT HERE ON 5 MARCH.

DETAIL

BUDGET DISCIPLINE

2. DUMAS MADE CLEAR THAT, LIKE US, HE WISHES TO KEEP OPEN THE POSSIBILITY OF TREATY AMENDMENT THOUGH THE EUROPEAN COUNCIL TEXT SHOULD NOT BE EXPLICIT. WE AGREED THAT THE LATEST COMMISSION

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TEXT WAS TOO DETAILED FOR THE EUROPEAN COUNCIL WHILE, AT THE SAME TIME, NOT BEING SPECIFIC ENOUGH, PARTICULARLY ON THE CONTROL OF NON-OBLIGATORY EXPENDITURE. I URGED THE NEED FOR A FRAMEWORK TEXT ON THE LINES OF OUR POSITION PAPER. IT WAS PARTICULARLY IMPORTANT TO BIND ALL THREE INSTITUTIONS. DUMAS SAID THAT THE PRESIDENCY WOULD PRODUCE A TEXT AND INDICATED THAT LEGRAS WOULD SHOW IT TO HANNAY. I STRESSED THAT A MECHANISM FOR BUDGET DISCIPLINE SHOULD PROVIDE FOR THE RATE OF INCREASE OF AGRICULTURAL EXPENDITURE TO BE MARKEDLY BELOW THAT OF THE OWN RESOURCES BASE. DUMAS ARGUED FOR QUOTE NO HIGHER THAN UNQUOTE BUT SEEMED PREPARED TO SETTLE FOR QUOTE LOWER THAN UNQUOTE. BUDGET IMBALANCES

3. DUMAS SAID A SCHEME BASED ON NET CONTRIBUTIONS WAS UNACCEPTABLE TO THE OTHER NINE MEMBER STATES. I POINTED OUT THAT THE COMMUNITY HAD BEEN USING NET CONTRIBUTIONS SINCE 1978 AND THAT THE EXTENT OF OUR ADJUSTED NET CONTRIBUTION WAS THE MEASURE WHICH THE HOUSE OF COMMONS WOULD USE IN DECIDING WHETHER WE HAD NEGOTIATED AN EQUITABLE DEAL. THE FRENCH SCHEME FAILED TO TAKE ACCOUNT OF THE LEVIES AND DUTIES ELEMENT OF OUR NET CONTRIBUTION, WHICH HAD AVERAGED ABOUT 350 MECUS A YEAR OVER THE LAST 4 YEARS. THE PRIME MINISTER HAD SPOKEN AT ATHENS OF A SCHEME WHICH IN AN ENLARGED COMMUNITY WOULD GIVE THE UK AND FRANCE NET CONTRIBUTIONS OF 4-500 MECUS IN THE FIRST YEAR. THAT WAS AN ADJUSTED NET CONTRIBUTION FIGURE. IF THE FRENCH WERE PROPOSING A SCHEME THAT SCORED OUR LEVIES AND DUTIES AS VAT IN THE MEASUREMENT OF THE BURDEN, THEN SOME 350 MECUS WOULD HAVE TO BE ADDED TO ANY RESIDUAL FIGURE WHICH EMERGED FROM SUCH A SCHEME. I EXPLAINED WHY A RELIEF OF 750 MECU, AS PROPOSED UNDER THE FRENCH SCHEME, WAS QUITE UNACCEPTABLE. I REALISED IT WAS CLOSE TO THE FIGURE AGREED AT STUTTGART BUT THAT HAD ONLY BEEN ACCEPTABLE BECAUSE IT COMPENSATED FOR THE MORE FAVOURABLE THAN EXPECTED RELIEFS WE HAD RECEIVED IN 1980 AND 1981. I WENT ON TO INDICATE OUR DETAILED OBJECTIONS TO THE FRENCH TEXT (ARBITRARY AND PUNITIVE STEP SYSTEM FOR ESTABLISHING LEVEL OF COMPENSATION, ALLOCATION OF ADMINISTRATIVE EXPENDITURE ETC). ALL THESE ELEMENTS IN THE FRENCH SCHEME WERE DESIGNED TO WHITTLE AWAY THE APPARANT SIZE OF

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THE GAP AND THE AMOUNT OF OUR RELIEFS WHEREAS, IN OUR VIEW, THE ONLY CIRCUMSTANCES IN WHICH A SCHEME BASED ON THE VAT/EXPENDITURE SHARE GAP MIGHT BE MADE TOLERABLE WAS IF THE PARAMETERS WERE VERY GENEROUSLY DRAWN. I GAVE DUMAS A TECHNICAL NOTE ON SOME OF THESE POINTS (TEXT BY BAG). I ADDED THAT ANY SCHEME MUST PROVIDE FOR NET FINANCING IE OUR RELIEFS SHOULD BE NET OF ANY CONTRIBUTION TO OUR OWN RELIEF OR THAT OF OTHERS. DUMAS ACCEPTED THIS IN RESPECT OF OUR OWN RELIEFS BUT SAID THAT WE WOULD HAVE TO CONTRIBUTE TO RELIEFS FOR GERMANY IF GERMANY WAS TO BE INCLUDED I THE SCHEME. IT WAS HOWEVER MITTERRAND'S INTENTION TO TRY TO PERSUADE KOHL AT THEIR MEETING LATER TODAY TO AGREE TO A SCHEME WHICH DID NOT APPLY TO GERMANY. I POINTED OUT THAT IT WAS POSSIBLE TO DEVISE SATISFACTORY SCHEME LEAVING GERMAN WITH A HIGH LIMIT ON ITS NET CONTRIBUTION. WE WOULD GIVE LEGRAS SOME EXPLANATORY TABLES. I MADE IT QUITE CLEAR THAT, WHILE WE WOULD ACCEPT IT IF GERMANY HERSELF OPTED NOT TO HAVE A LIMIT, WE WOULD NOT BE A PARTY TO ANY EFFORT TO REFUSE HER ONE.

4. DUMAS SHOWED HIMSELF WILLING TO MAKE CHANGES IN THE DETAILS OF THE FRENCH SCHEME BUT HE WAS UNYIELDING IN HIS REFUSAL TO ACCEPT ONE BASED ON NET BALANCES, ADDING THAT THE REALLY DIFFICULT ISSUE REMAINED THAT OF FIGURES WHICH COULD ONLY BE SETTLED BY THE PRIME MINISTER AND PRESIDENT MITTERRAND.

DURATION OF SCHEME/NEW OWN RESOURCES

5. WE AGREED THAT IT WOULD BE ACCEPTABLE IF THE SYSTEM FOR BUDGET IMBALANCES LASTED AS LONG AS ANY AGREED NEW OWN RESOURCES, AND THAT ANY REVIEW PROCEDURE WOULD NEED TO BE BASED ON PRESUMPTION OF CONTINUITY SO LONG AS THERE REMAINED A PROBLEM. DUMAS STARTED TO ARG THAT AN INCREASE IN OWN RESOURCES TO 2 PERCENT WOULD BE ADVANTAGEOUS TO THE UK BECAUSE THE CEILING WOULD NOT BE REACHED QUICKLY AND THE SYSTEM WOULD THEREFORE LAST LONGER. I DISPUTED THIS SAYING THAT TH WE AND THE GERMANS WOULD ANYWAY HAVE NO CHANCE OF PERSUADING OUR PARLIAMENTS TO ACCEPT A NEW CEILING HIGHER THAN 1.4 PERCENT DUMAS SAID THAT FRANCE TOO MIGHT HAVE TROUBLE ACCEPTING A CEILING ANY HIGHER THAN THAT.

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6. DUMAS ACCEPTED THE NEED FOR A EUROPEAN COUNCIL TEXT COMMITTING THE COMMUNITY TO EFFECTIVE GUARANTEE THRESHOLDS FOR ALL SECTORS WHICH WERE OR WERE LIKELY TO BE IN SURPLUS OR WHERE THERE WAS A SIGNIFICANT INCREASE IN EXPENDITURE OR WHERE PRODUCTION WAS INCREASING MORE RAPIDLY THAN CONSUMPTION. I COMMENDED TO HIM THE GERMAN TEXT TABLED AT ATHENS AND HE AGREED TO LOOK AT IT AS A POSSIBLE BASIS FOR A PRESIDENCY TEXT.

7. DUMAS ARGUED FOR A PHASED REDUCTION IN MILK PRODUCTION TO ACHIEVE 97.2 MILLION TONNES OVER THREE YEARS. I SAID WE COULD NOT AGREE. EVERY 1 MILLION TONNES OF MILK PRODUCTION OVER THE LIMIT WOULD COST THE COMMUNITY AN ADDITIONAL 235 MECUS, ACCORDING TO COMMISSION FIGURES. WE WERE THEREFORE TALKING OF AN ADDITIONAL COST OF 2 BILLION ECUS OVER THE THREE YEARS. DUMAS THEN SAID THAT THE FRENCH WOULD CONSIDER A TWO YEAR PHASING. I SAID WE WOULD CONTINUE TO OPPOSE THIS. I ALSO ARGD AGAINST SPECIAL MEASURES FOR SMALL PRODUCERS AND AGAINST AN INTENSIVE LEVY. MEASURE OF THIS KIND WERE OPEN TO ABUSE AND DIFFICULT TO ADMINISTER. THERE COULD BE SOME FLEXIBILITY OVER THE BASE YEAR IE COUNTRIES COULD TAKE 1981 PLUS OR 1983 MINUS. THE UK NEEDED TO USE 1983 AS THE BASE YEAR. BUT THERE SHOULD BE NO EXEMPTIONS. DUMAS SAID THAT, AT ATHENS, HE THOUGHT THAT AN EXEMPTION FOR IRELAND HAD BEEN VIRTUALLY AGREED. I EXPLAINED THAT IT HAD NOT AND THE DANGERS OF CONCEDED IT. IF IT WERE CONCEDED WE WOULD NEED A SIMILAR EXEMPTION FOR NORTHERN IRELAND. IF ANYTHING WAS TO BE DONE FOR IRELAND THIS SHOULD BE IN THE FORM OF SPECIAL MEASURES OUTSIDE THE MILK SECTOR. DUMAS THOUGHT THIS A GOOD IDEA. I PRESSED DUMAS TO ACCEPT A PROGRESSIVE REDUCTION IN CEREAL PRICES OVER THE YEARS AHEAD.

ENLARGEMENT

8. DUMAS ASKED ME WHAT SHOULD GO INTO THE TEXT FOR THE EUROPEAN COUNCIL. WE AGREED THAT THERE SHOULD BE REFERENCES TO THE COMMUNITY'S COMMITMENT TO COMPLETION OF SUBSTANTIVE NEGOTIATIONS BY 30 SEPTEMBER WITH A VIEW TO ACCESSION ON 1 JANUARY 1986. HE SUGGESTED, AND I AGREED, THAT IT WOULD ALSO BE HELPFUL IF THE TEXT COULD INCLUDE LANGUAGE ON THE NEED TO AVOID THE CREATION OF NEW AGRICULTURAL SURPLUSES IN THE ENLARGED COMMUNITY.

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NEW POLICIES

9. I GAVE DUMAS A PAPER ON NEW POLICIES BASED ON OUR STANDARD POSITION PAPER (TEXT BY BAG). DUMAS APPEARED TO ACCEPT MY SUGGESTION THAT THERE SHOULD BE SOMETHING ON NEW POLICIES IN THE EUROPEAN COUNCIL STATEMENT, COMMITTING THE COMMUNITY TO AN AGREED PROGRAMME. I SAID WE NEEDED TO MADE DEDAILED PROGRESS IN THE SPECIALIST COUNCILS EG INTERNAL MARKET COUNCIL. DUMAS SAID THAT HE HAD TAKEN THIS POINT ON BOARD FROM OUR LAST MEETING. THERE WOULD BE AN INTERNAL MARKET COUNCIL ON 8 MARCH. WE ALSO SUGGESTED THE VALUE OF AN EARLY TRANSPORT COUNCIL WHICH COULD BE POLITICALLY VALUABLE IN THE PRESENT DIFFICULT CIRCUMSTANCES. DUMAS SAID THAT HE WOULD LOOK AT THIS.

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DIST:
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PS
PS/MR RIPKIND
PS/PUS
SIR C TICKELL
MR HANNAY

COPIES TO:
MR HOUSTON, MR WILLIAMSON CAB OFF
MR UNWIN TRSY
MR ANDREWS MAFF
MR LACKEY DTI