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SUBJECT



10 DOWNING STREET

20 June, 1984

From the Private Secretary

PRIME MINISTER'S TELEPHONE CALL TO THE NETHERLANDS PRIME
MINISTER, 20 JUNE, 1984

The Prime Minister telephoned Mr. Lubbers in the Hague early this morning shortly before the latter's departure for Paris to see President Mitterrand.

The Prime Minister thanked Mr. Lubbers for his tremendous effort over IMF stationing. Mr. Lubbers said that the Prime Minister's earlier telephone call had been a great encouragement. He had done what he had promised.

Turning to the British budget problem, the Prime Minister said that she wanted to let Mr. Lubbers know how she saw matters before his meeting with President Mitterrand. She had herself spoken to President Mitterrand at the Economic Summit. She thought that he wanted a settlement but was not quite sure. She told him that it was essential not to go back on the last position reached at the Brussels European Council. Discussions at Fontainebleau should start from the basis of the system agreed in Brussels and set the figure on which it should be based. This should be a compromise between 1000 and 1250 million ecus on 1983 figures. On this she could move a bit but not much. The gap measured by the system was not the true gap and she had already made a major concession by accepting this. It would also be important to settle the matter of budgetary discipline at Fontainebleau. Britain and the Netherlands were among the few member states with a serious interest in restraining Community expenditure.

Mr. Lubbers asked when the Prime Minister wanted the system to be introduced. The Prime Minister recalled that she had agreed one ad hoc year with the system coming into force on 1 January 1986. As refunds were always paid in arrears, that would take care of 1985. Mr. Lubbers asked if he had understood correctly that the Prime Minister's advice was to try to reach a compromise on the base figure starting from the last position reached at the Brussels European Council. The figure would have to be higher for the system than for the one ad hoc year. The Prime Minister confirmed this.

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Mr. Lubbers continued that his impression was that a satisfactory text on budgetary discipline had been virtually agreed at the Brussels European Council. The Prime Minister recalled that much work had been done on the text and the important word 'guarantee' inserted into it. She agreed that it was essential to stick to the text though decisions would be needed on how it would be implemented.

Mr. Lubbers concluded that what the Prime Minister had said was clear. He would see what he could do. He had not been in touch with President Mitterrand for some time and was not up to date on his views. He would telephone the Prime Minister if something new emerged from his meeting. The Prime Minister said that it would be marvellous if Heads of Government at Fontainebleau could get rid of the budget problem and could start concentrating on the future development of the Community. This would be good for the Community in the eyes of the world.

I am sending a copy of this letter to David Peretz (HM Treasury).

(C.D. Powell)

R. Bone, Esq.,
Foreign and Commonwealth Office

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