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PRIME MINISTER

Prime Minister 2
This is interesting. Please
protect carefully - a give to
John Hagedorn to bring back to me
A.J.C. 3/12

We have reason to believe that the
main lines to be taken by Mitterrand and Kohl
at this European Council are as follows:

Mitterrand

(i) UK Budget

Hopes to avoid a discussion here. Accepts in principle funds will be needed for the UK over the next two or three years. But against cash payments and would prefer to work by increasing normal Community expenditure in UK.

(ii) Own Resources

Likely to insist ^{on} timetable or procedure for increasing own resources. Must be settled before enlargement. Could be achieved either by rising 1% ceiling or other technical means. Expects to be opposed on this by UK but still not clear how Germans will play it (Germans are divided; this is borne out by next report).

(iii) Two-Tier Community

Opposed to this and in particular to Italian ideas for letting ~~France~~ Spain and Portugal in and negotiating terms afterwards.

Kohl

(i) Concerned that main opposition at this Council would be France on whole number of issues (investment, protectionism, enlargement). Other partners would hide behind French. He should try hard to ensure that German/French disagreements did not surface at the Council even in his private discussion with Mitterrand at breakfast tomorrow.

(ii) On economic policy should emphasise need for all member states to make major effort but not at expense of others. Touch only lightly on protectionism.

(iii) On enlargement leave the running to be made by Genscher but if own resources ^{and} the 1% ceiling were pressed very hard by Mitterrand should take line that enlargement would not necessarily cause breach of 1% ceiling. Everything possible should be done to finance enlargement within existing framework, particularly by savings on agriculture. But if it became absolutely necessary should say if, in course of time, and despite all economies being made, own resources limit was reached would need to then examine what restructuring necessary.

(iv) At dinner should argue strongly to avoid further transatlantic rows. But must tell the USA they could not play up contentious issues like the CAP.

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(v) He should participate constructively in a discussion of Poland (no explanation of this delphic phrase) and speak up for Genscher/~~and~~ Colombo.

D Hannay

3 December, 1982

(D H A Hannay)

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