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cc: Sir Robert Armstrong

FUTURE FINANCING OF THE COMMUNITY: PREPARATIONS FOR STUTTGART

--- You may be interested to see this copy of the report made by State Secretary Lautenschlager on his discussions with the Foreign Ministers of the member states.

D F Williamson
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31 May 1983

Mr President, in accordance with the brief assigned me at Gymnich, the Commission representative Mr SCHAUS and I held discussions with all nine Foreign Ministers in their respective capitals during the period from 16 to 21 May. The basis for the discussion was a previously forwarded questionnaire which had been drawn up on the basis of the Gymnich discussions.

First of all I too should like to thank the Ministers around this table for having given us the opportunity to hold the discussions after such short preparation and in such a short period of time, and I should also like to express my gratitude for the open and trusting atmosphere which was a feature of all the discussions.

II

I should like to summarize my impressions of our talks as follows:

1. In all the countries the particular urgency and significance which everybody attributes to the solution of the problems facing us was made clear to me. Everyone was aware that there was at least a political, and partly also a factual connection between the problems, but that they could not all be solved according to the same timetable. Practically everywhere there was a desire to concentrate on the main problems and to make decisive progress in the Council meetings before Stuttgart, so that the European Council might make the desired practical decisions, set out political guidelines and also take the most useful procedural decisions.
2. The following four areas emerged as the main topics:
 - the long-term financial settlement,
 - other questions which had to be solved in connection with or as a precondition for the settlement, such as:

- improvement in the restructuring or extension of existing policies and introduction of new Community projects in the advanced technologies sector,
- substantial savings, especially in the agricultural sector,
- efforts to improve the balance between the so-called north and south agricultural products and
- the interim solution for the UK (and Germany)
- finally, the problems of accession and the time scale for solving them.

I would add that our Greek friends have particularly asked the European Council to look sympathetically at the special problems facing Greece.

3. (a) As regards the long-term financial settlement I have been able to ascertain that it is more or less certain that seven and perhaps even eight countries would be prepared in principle, subject to certain conditions, to exceed the 1% value added tax limit, either up to 1.4% or higher, but in any case for a period of time which would relieve Community difficulties on this subject for a considerable period. Most countries were also in agreement with the principle of correctives, although of course there were different ideas about the form which should be given the basic criteria. Some countries were considering the creation of a safety net or a system which has become known as "égrettement des soldes".

Two capitals, one of which I did not have to visit specially, have fundamental objections to exceeding the 1% limit, although I have the impression that here too, under certain conditions, there would be readiness to discuss the Commission proposals, although of course the outcome cannot be prejudged.

In general it is my impression that despite some individual objections, the aims of the Commission proposal, i.e. to remove existing imbalances in budget responsibilities, were received not in a negative, but in a positive manner. The majority expressed the opinion that any increase in the financial framework must remain a matter for the national parliaments. Individual Ministers did not exclude the possibility that, in a framework to be decided on by the national Parliaments, tranches would be fixed by a Community procedure that could be based on the Commission's deliberations.

The question whether ratification of the long-term solution in every eventuality to coincide with ratification of the increase was answered differently according to the various interests and domestic political situations and remained open.

As for the rest I noted a general reluctance to provide for financial resources other than value added tax, at least at the present stage in the development of the Community.

(b) At the same time it was clear that most Ministers could only consider a long-term financial settlement on the lines of the Commission's basic idea if a number of conditions and preconditions were fulfilled at the same time. These included:

- substantial savings in the agricultural sector through specific decisions and not simply by establishing principles, as for example the principle that agricultural expenditure should not rise faster than income. While fully maintaining the basic principles of the common agricultural policy, the following measures were mentioned by way of example (this is not an exhaustive list):
- restrictive price policies,
- lowering of the guarantee thresholds or introduction of production quotas,
- producer co-responsibility,

- Superlevy in the milk sector,
- discussion of the problems of substitutes,
- problems of frontier compensation,
- removal of irregularities in the implementation of the common agricultural policy in certain sectors.

I was impressed by the definite desire which now exists to make really substantial savings. It is obvious that for the Council to act it must have before it the corresponding Commission proposals, which are expected in the very near future.

At the same time great importance was attached in many capitals to the fact that in addition to savings being made when the long-term solution is adopted, specific decisions for the improvement, extension and restructuring of existing policies and for the introduction of new Community measures, in particular in the field of new technologies, are also regarded as indispensable. This is seen from the standpoint of the desired further development of our Community as much as a means of resolving the so-called British problem in the longer term.

Specific proposals from the Commission in good time are also a prerequisite for decisions in this area.

In this connection reference was also made here and there to the strengthening and extension of existing Community instruments and to the importance of the continued development of the European Monetary System.

-- Finally, in the south of our Community, I came across a request that, when the long-term solution is adopted, decisions or guidelines should also be issued on possible ways of achieving a better balance between northern and southern agricultural products irrespective of enlargement. In other countries it was pointed out that the mistakes made or perhaps made in the case of northern products (in inverted commas) must not be repeated with southern

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products and that various measures have moreover already been set in train which in principle should allay the concerns of our partners in the Mediterranean.

The idea contemplated in one Member State that when the decision is taken on the long-term financing arrangement the existing budget rights of the European Parliament be limited, above all in the non-compulsory sphere, perhaps in exchange for greater powers on the revenue side, was overwhelmingly regarded as a non-viable political direction.

On the other hand there was support in many capitals for resolving by common accord any still obscure points between the Council and the European Parliament as regards budget procedures, e.g. as regards a more binding delimitation of compulsory and non-compulsory expenditure and consequently a precise definition of the so-called margin of the European Parliament.

- (c) As far as the interim solution for the United Kingdom and the Federal Republic of Germany is concerned, all the people I spoke to were satisfied with the decisions of the European Council held in March.

The overwhelming majority of the people I spoke to see some connection between the short-term and long-term solution, in particular

- not only because they would like to have an idea of whether and how the envisaged long-term solution and the decisions accompanying it might be appropriate for providing a lasting solution to the United Kingdom problem,
- but also because they are afraid that if some sort of link is not established the European Parliament could cause difficulties.

Our British friends do not see this link, or at least not in the same way, and refer to the decisions of the European Council held in March 1963 and the decisions of the Foreign Ministers

preceding them. The amount is to be entered in the 1984 budget not later than July 1983, which means that concrete decisions will have to be taken in May or June. At the same time, however, they emphasized of course that, as before, they are still interested in a long-term solution being found quickly and will co-operate in particular as far as participation in new Community measures is concerned.

With reference to the German problem in this connection, I met with understanding from some partners, while others rejected any further relief for the Federal Republic of Germany when the 1983 British problem is settled and yet others were open on the issue.

On the matter of what form the short-term solution should take, the majority opinion was that such a solution - including the risk-sharing arrangement - could be modelled on that adopted for 1982, whereby the excess payment and the limits drawn by the European Parliament would have to be taken into account, i.e. only a solution by means of Community policies could be envisaged.

- (d) I also spoke about the problems of accession and whether a date should be set for its conclusion or ratification. There was no doubt in any quarter that the accession negotiations should, for reasons of foreign policy as well, be terminated as swiftly as possible. The target date frequently cited was the first half of 1984. The question of when ratification should be concluded and accession take effect remained open, since this was mostly seen as depending on many internal policy developments in the individual countries, over which the Governments have only partial control.

4. With regard to the procedure for dealing with the entire complex issue I have just described, doubt was voiced as to whether, with the existing normal Community procedures, all problems could be resolved in time, since they touch on the areas of responsibility of many other Ministers. Overwhelming preference was, however, given to a Community procedure the details of which would be decided by the Foreign Affairs Council and which would be organized by the Presidency-in-Office, possibly in the form of a special urgent procedure. The idea of a procedure modelled on the Messina Conference was seen by some as worthy of consideration but finally gave way to a majority in favour of reserved judgment.

5. I was able to record agreement in principle that the conclusions of the Stuttgart European Council should as far as possible have three sections:

- an operative section with concrete decisions;
- a section containing political guidelines, also in respect of reports then tabled in which - I would add - other areas need to be dealt with on which progress reports need to be submitted, namely such areas as
 - = unemployment, particularly youth unemployment,
 - = the internal market,
 - = environmental protection, including de-afforestation,
 - = the adjustment of the "acquis".
- Lastly, the conclusions should have a procedural section stating how and over what period the entire dossier should be further tackled.

III

In conclusion, I should also like to mention that I have also spoken in some capitals about the solemn declaration on European Union. I made it plain that it was desirable that the solemn declaration be signed in Stuttgart, as an outward

expression both of determination and of the political will to give the Community a perspective which is important for the progress and successful conclusion of further discussions.

IV

In this short report I have selected from the wealth of material only what appear to me to be the most essential points. Perhaps, therefore, some of you around this table will note the absence of a matter which is important to you. I would ask for your indulgence if that is the case. The debate over the next few weeks will in any case afford you every opportunity of returning to the various points which will naturally then receive the attention of us all.

Thank you.

31 MAY 1983

