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PRIME MINISTER

Meeting with M. Dumas

The main subject will be the Presidency of the Commission. You may also want to raise budgetary discipline and voting in the enlarged Community. He may raise the 1984 Budget over-run. Briefs are attached,

Sir Geoffrey will be dining with M. Dumas this evening. I shall let you have a further note later on the outcome of this,

C.D.P.

16 July 1984

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Foreign and Commonwealth Office

London SW1A 2AH

16 July 1984

Q 17/7

Dear Charles,

Call by M. Dumas, French Minister for Foreign Affairs:
17 July

I enclose the following briefing for the Prime Minister's meeting with M. Dumas tomorrow morning:

- (a) Presidency of the Commission;
- (b) Budgetary discipline;
- (c) Budget overrun (if revised).

We expect that most of the meeting will be taken up with the question of the next President of the Commission. The Foreign and Commonwealth Secretary does not therefore recommend that the Prime Minister raises other issues, with the exception of budget discipline. It would be useful if the Prime Minister could emphasise that it will be necessary, if increased own resources are to be made available, for genuine measures on budget discipline to be adopted. A political declaration of the kind which the French currently appear to envisage will not be enough.

The Prime Minister will wish to be aware that in discussion in Brussels over the last few days, Mr Andriessen's staff have been taking an unhelpful attitude over the two cases which the Commission are proposing to bring to the European Court in connection with milk pricing practices in the UK. Sir Geoffrey Howe suggests that the Prime Minister should make no special mention of Mr Andriessen's candidature. Should M. Dumas ask about our view, the Prime Minister might simply say that we regard M. Davignon as being much better qualified.

Yours ever,

Colin

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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PRIME MINISTER'S MEETING WITH M DUMAS, FRENCH MINISTER FOR
EUROPEAN AFFAIRS: 17 JULY 1984

PRESIDENCY OF THE COMMISSION

Points to Make (General)

1. We have not so far given serious thought to a French candidate, because it is really not the turn of a French, any more than of a British candidate, to hold the Presidency of the EC Commission. M Ortoli and Mr Jenkins were Presidents too recently.
2. Surprised that Germans have not come up with a candidate. Do we yet have confirmation that they have really dropped out?
3. Failing a German candidate, other contenders in the field - Davignon (Belgium), Andriessen (Netherlands) and Christophersen (Denmark). Davignon's credentials obviously very strong.
4. [If Cheysson's claim is pressed] Curious to have a French candidate so soon after Ortoli. Should be a rotation.
5. [If Delors is pressed] From the point of view of his personal qualifications, we think he would be likely to make an excellent President. But idea of rotation of the Presidency between Member States is one to which we attach importance.

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PRIME MINISTER'S MEETING WITH M DUMAS, FRENCH MINISTER FOR
EUROPEAN AFFAIRS: 17 JULY 1984

PRESIDENCY OF THE EUROPEAN COMMISSION

References: A : Sir G Howe's minute of 10 July to the Prime
Minister
B : Mr Powell's letter of 11 July to Mr Bone
(recording Mr Fitzgerald's conversation with the
Prime Minister)

Background

1. Candidates for Presidency of Commission are:

Delors	- French Minister for Economy, Finance and Budget
Cheysson	- French Foreign Minister
Davignon	- (Belgian) Vice-President of European Commission, responsible for Industrial Affairs, Energy and Research
Andriessen	- Netherlands Commissioner for Competition and Relations with the European Parliament
Christophersen	- Deputy Prime Minister of Denmark and Minister for Finance

Of these, the Irish Presidency have already concluded from their
contacts that only the French candidates and Davignon have any
serious chance.

2. Davignon is our first choice. He is far better qualified than
most others for the post. But Kohl is strongly opposed to him.
We have no interest in Cheysson and should be prepared to indicate
that he is not acceptable to us.

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3. We should continue to support Davignon. But, if, he is blocked by the Germans, Delors could be an excellent President. If we were to accept him, we should want to secure French support for a UK successor to Noel as Secretary-General of the Commission, at which Dumas has already hinted; Sir G Howe will be mentioning this to him on 16 July.

European Community Department (Internal)
16 July 1984

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PM/84/117

PRIME MINISTER

Mr Renwick

cc PS

PS/Mr Riffkind

PS/PNS.

Sirc Tickell

Mr Williamson (Cab OH)

Mr Fairweather

Miss Mc Nee

MP

11/7

Presidency of the European Commission

1. Dr FitzGerald will be in touch with you on Wednesday about the Presidency of the Commission. We had a word about this yesterday. We are both familiar with the facts and arguments. This note shows how my own thinking has moved on a little since we spoke.
2. We face a difficult situation as a result of Kohl's indecision. We have been in touch with his staff, who claim that Kohl has still not yet finally decided whether or not to put forward a German candidate and will only do so on his return from Latin America next week. But the reports about Biedenkopf are now much less firm. We do not want Kohl to propose Genscher. If Genscher were nominated, I do not see how we could oppose him but I do not think he would be a good President of the Commission.
3. Dumas claimed to the Irish that the Germans would definitely not nominate a candidate. It is up to FitzGerald to check with Kohl what his intentions are; and we shall do so again ourselves as soon as Kohl returns to Bonn.
4. If there is no German candidate, then we should be free to support Davignon, the candidate whom we should both prefer. But we should avoid committing ourselves too heavily as that

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might work against his candidature (it is far from certain that his candidature can succeed). He is far better qualified than most others for the post, and has a keener political sense. But Kohl is strongly opposed to him. At the least we should be able to use his candidature to try to block off others who would be thoroughly undesirable from our point of view - above all Cheysson. We are trying to find out how much support there is for Davignon among the smaller Member States; but the Danes and Dutch of course have nominated their own candidates. We are also trying to find out the Italian attitude.

5. Dumas told the Irish that there would be two French candidates - Cheysson and Delors. It is not the French turn to hold the Presidency: Ortoli was President before Roy Jenkins. But this is an unwritten rule, and if the Germans do not come forward with a candidate, the earlier rotation will probably not apply. After Cheysson's unhelpful role in the budget negotiations, there is no reason why we should accept his candidature. I think he would be a very bad President of the Commission, with little interest in controlling future expenditure.

6. Delors is a candidate of no less competence than Davignon. As Finance Minister in Paris, he has argued strongly for sensible economic policies and I am rather surprised that Mitterrand thinks he can spare him from his Government. A recent speech he made in Paris suggested that he would like to move from his present post. Delors would be likely to take a far more serious interest in the management of the Community's finances. If we do not get Davignon, I think we could live with Delors as President of the Commission. We should consider whether, if we were to accept him, we could exact French support for a British candidate to replace Noel in

/the key



the key post of Secretary General in the Commission (a possibility Dumas has mentioned to me).

7. I suggest that when Dr FitzGerald telephones, you might take the line that:

(a) we still do not know whether the Germans are going to put forward a good German candidate. What is the Irish impression of German intentions? Are they in touch direct with Kohl?

(b) if there is no strong German candidate, we consider that on the grounds of competence Davignon would be well qualified for the post. How much support does Dr FitzGerald think there is for his candidature?

8. If Dr FitzGerald mentions Cheysson's candidature, I suggest you make clear that our position is entirely reserved. Ortoli held the post from 1973-76. We do not see in what respect Cheysson's qualifications could be regarded as superior to those of Davignon. If Dr FitzGerald mentions Delors, you might say that we do not see why the French should hold the Presidency again so soon after Ortoli, but avoid giving the impression that we are as negative about Delors as we are about Cheysson. He has financial qualifications which would be important. We should need to think more carefully about this.

9. I am minuting separately about the composition of the two ad hoc groups of personal representatives of heads of government which will be established as a follow up to the Fontainebleau European Council.



10. I am sending copies of this minute to the
Chancellor of the Exchequer and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
10 July 1984

PRIME MINISTER'S MEETING WITH M DUMAS, FRENCH MINISTER FOR
EUROPEAN AFFAIRS, 17 JULY 1984

BUDGET DISCIPLINE

POINTS TO MAKE

1. Reaction in UK Parliament to Fontainebleau settlement has been that increase in own resources can only take place if effective budget discipline is implemented. Government have said that they will only recommend increase in own resources to Parliament when necessary measures to guarantee the agreed principles of budget discipline are in place.
2. Welcome decision of Council of Finance Ministers on 9 July to ask ad hoc group on budget discipline to meet again this week and to report back to Finance Ministers in September. Believe that work on budget discipline and on revised own resources decision needs to go ahead in parallel so that decisions can be taken on both together in the Autumn.
3. Important that the agreement on budget discipline should be incorporated in the Community's budget procedures. If Treaty amendment not possible, there will need to be a binding Council regulation for the guideline for agricultural spending.

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ESSENTIAL FACTS

/ 1. The European Council text on budgetary discipline is attached. ECOFIN agreed, at its meeting on 9 July, that the ad hoc group of senior officials set up after the March European Council should meet again on 17 July with a view to making early recommendations on the implementation of the European Council text. Finance Ministers will consider the text again at their informal meeting on 15/16 September and we hope that an agreed text might be adopted at the informal meeting of ECOFIN on 15 October. This timing is likely to fit with that of separate Ministerial consideration of the revised own resources decision. However, the European Parliament's opinion on both subjects will of course have to be sought and this could give rise to further delays before implementation can take place.

2. M Delors told the Chancellor of the Exchequer in the margins of ECOFIN that he thought the best we could hope for was a "solemn and binding declaration" on budget discipline by the December European Council. We need to do better than that, if we are to demonstrate to our Parliament that measures to guarantee budget discipline have been adopted.

3. Treaty amendment will definitely not be available but we should continue to press for a regulation under Article 235 of the Treaty for implementation of the financial guideline for agriculture. Such a regulation would bind the Council to observe the guideline. Under the provisions of the Commission proposal, which is endorsed in the European Council Conclusions, the guideline could be exceeded if the Council so decided. An Article 235 regulation would however, ensure that the Council could not vote to exceed the guideline without our consent.

4. We face a separate problem in that, whatever the guideline, there is no way short of Treaty amendment, that we can bind the Commission not to exceed it at some point during the agricultural price fixing. At the moment, the Commission have committed

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themselves to observe the guideline in their price fixing proposals. We should try to get them to give an undertaking in writing to observe the guideline throughout the price fixing. While this assurance would not be bankable, it would nevertheless be a solemn commitment on which the Commission could only renege with difficulty.

5. Our greatest difficulty will be in implementing the reference framework which will primarily affect non-obligatory spending. A Regulation under Article 235 would not be binding on the European Parliament. In the absence of Treaty amendment, it will not be possible to bind the Parliament to observe the reference framework. We are, however, examining the possibility of incorporating the reference framework into the revised own resources decision. This could only be done by agreement with Parliament. However, if provision were made whereby the Council, after consultation with the European Parliament could fix the VAT rate for the following year, in February of the current year, this would go a long way towards curbing subsequent action by the Parliament to increase non-obligatory spending during the budget process.

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BUDGETARY AND FINANCIAL DISCIPLINE

The European Council considers it essential that the rigorous rules which at present govern budgetary policy in each Member State also apply to the budget of the Communities.

The level of Community expenditure will be fixed as a function of available revenue.

Budgetary discipline, which calls for a combined effort by all the Institutions in the framework of their respective powers, will apply to all budget expenditure.

2. The European Council invites the Council of Ministers for its part:

- to fix at the beginning of the budget procedure a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year;
- so to proceed that the net expenditure relating to agricultural markets calculated on a three-yearly basis will increase less than the rate of growth of the own resources base. This development will be assessed on comparable bases from one year to the next. Account will be taken of exceptional circumstances, in particular in connection with enlargement. The provisions laid down in the Commission document on financial guidelines concerning the Common Agricultural Policy will be implemented;
- to undertake to comply with the maximum rate throughout the budget procedure as defined in Article 203 of the Treaty of Rome. At the first reading the Council will keep the increase in Non-Compulsory Expenditure to a level no higher than half the maximum rate. At the second reading the Council will adopt a position such that the maximum rate is not exceeded.

3. The European Council invites the Council of Ministers to adopt by June 1984 the measures necessary to guarantee the effective application of the principles referred to in paragraph 2.

PRIME MINISTER'S MEETING WITH M DUMAS, FRENCH MINISTER FOR
EUROPEAN AFFAIRS, 17 JULY 1984

BUDGET OVERRUN [IF RAISED]

POINTS TO MAKE

1. UK position, as explained at Fontainebleau, is that the budget must be brought into balance. Believe this should only be done through the own resources, ie we are against supplementary financing which is tantamount to an increase in the 1% ceiling.
2. UK has put forward a number of proposals for savings. Also believe that there should be deferrals into 1985. If necessary, we would be prepared to see any residual overrun at the end of the year funded exceptionally and temporarily by the intervention agencies in each Member State, with their costs reimbursed from the Community budget in 1985 or 1986. As part of a package approach, we would be willing to see increase in own resources take place in the second half of 1985. This would enable any unavoidable residue of the 1984/1985 overrun ie an agreed sum which could clearly not be dealt with by savings, to be financed by a supplementary budget. It would also enable the UK refund for 1984 to be paid on the revenue side, as the Commission have proposed.

ESSENTIAL FACTS

1. At a meeting on 13 July, under the Prime Minister's chairmanship, ministers agreed that our position at the Budget Council on 18/19 June would be as follows:

a) the 1984 overrun would be reduced to the maximum possible extent by savings and deferrals;

b) the remaining gap should be financed exceptionally and temporarily by the national intervention agencies in each Member State with their costs to be reimbursed from the Community budget in 1985 or 1986.

c) the 1985 budget should be brought back within the 1% ceiling, with the brunt of necessary cuts being taken by agricultural spending;

d) in order to secure our 1983 refunds and to put together a package negotiable with other Member States, we would be willing to see the revised own resources decision taking effect in the second half of 1985.

2. It was also agreed that Sir Geoffrey Howe would explore the position with M Dumas to see if the French could agree to a package of this kind. The French Government are not opposed to making savings in 1984. At official level, they have indicated support for German proposals for savings of up to 700 mecus in 1984, mostly from non-obligatory expenditure, in particular expenditure for which there is appropriation provision in the budget but where spending is in practice unlikely to take place in 1984.

3. Savings of this order would, however, leave an anticipated overrun of approximately 1.5 billion ecus. The French, in common with the Germans and other Member States, are ready to finance this by a system of national advances under which Member States

would fund the overrun by means of a special payment, with each Member State contributing at its normal VAT share [22.7% for France; 28.7% for Germany and 20% for the UK]. Assuming a budget overrun of 1.5 billion, the initial cost to the UK of contributing its share would be 300 million ecus of which approximately half would come back to us in the form of agricultural receipts.

4. Far preferable from the UK point of view would be to defer this expenditure into 1985 when, because of the effects of the budget system, the net budget cost to the UK would be reduced to 49 million ecus. For this same reason, French and others are likely to argue that any expenditure deferred into 1985 should not count towards UK reliefs. In those circumstances there would be no advantage to us in deferring the expenditure, (the net cost would be the same as if we had made an advance at our normal VAT rate). We shall therefore need to argue strongly against any such suggestion. We should argue that the whole budget imbalance agreement was reached on the assumption that the 1% ceiling was to be maintained in 1984, and that because of the resulting pressure on Community spending, we were prepared to accept a further ad hoc payment of 1000 mecus. It was clearly understood that, thereafter, the system would apply. There is no case for penalising the UK for expenditure deferred into 1985 which will significantly add to our budget burden and therefore must qualify towards reliefs.