

RECORD OF MEETING BETWEEN THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS, THE RIGHT HON SIR GEOFFREY HOWE QC MP AND THE MINISTER FOR FOREIGN AFFAIRS OF FRANCE, M CLAUDE CHEYSSON HELD AT THE FOREIGN AND COMMONWEALTH OFFICE ON THURSDAY 20 OCTOBER 1983

Present:

UK

The Rt Hon Sir Geoffrey Howe QC MP
Mr Malcolm Rifkind MP
Sir J Fretwell (HM Ambassador, Paris)
Mr D Williamson, Cabinet Office
Mr R Evans
Mr D H A Hannay
Mr B P Fall
Mr P S Fairweather
Mr R Young
Mr R Bone
Mr J S Wall

France:

M Claude Cheysson,
Minister for Foreign
Affairs
M André Chandernagor,
Minister with
responsibility for
Foreign Affairs
M Jean-Claude Paye,
Economic Directeur,
Quai d'Orsay
M Pierre Morel, Chargé
de Mission à la
Présidence de la
République
M Dufourcq, Directeur
d'Europe
M Daniel Bernard,
Conseiller Technique au
Cabinet de M Cheysson
M Alain Grenier, Ministre-
Conseiller, Ambassade
de France au GB
M Alexandre Cernelutti,
Premier Secrétaire,
Ambassade de France au GB

EUROPEAN COMMUNITY

1. M Cheysson said that it was necessary to take an overall view in the current negotiations. It would be difficult to make

progress on one issue in the absence of an overall idea of what could be achieved. France would not make concessions on some issues unless it knew what might be available on others. The procedure adopted at Stuttgart had provoked a very thorough discussion. The tone was unusually good and the Community had managed to address all the substantial issues with the result that the number of really difficult issues now to be faced was limited. This was an achievement. But we should also recognise what would happen if no proper result were achieved at the Athens Summit in December. The French Government was convinced that, after so substantial a negotiation, the absence of a result at Athens would have consequences for the EC more serious than any since its foundation: the Parliament would probably reject the budget; the United Kingdom would be left without any refund; there would be major problems over agriculture and the enlargement negotiations would lose all sense. Europe would be frozen. It was equally clear that results as between the EC Member States were not enough. After Athens there would have to be a negotiation with the United States. This negotiation must address the agricultural trade issues but it would need to go wider. The technical aspects of the discussion could probably be started now but the global aspects would only become clear after the Community knew where it stood, post Athens, eg on enlargement.

2. Sir Geoffrey Howe said that, while he agreed with M Cheysson's assessment of the need for negotiation with the United States, he did not like the prospect of US/EC relations becoming part of the pre-Athens agenda. But he agreed that the problem of agricultural surpluses was cumulative and could blow up in our faces. Our task in the present negotiations was to prepare the Community for the necessary dialogue with the UK. M Cheysson commented that the problem was not simply one of cumulative surpluses but the fact that enlargement would change the whole pattern of US trade. For example, the US was now a major importer of Spanish products. That would have to change.

New Policies

3. Sir Geoffrey Howe agreed that failure at Athens would have very serious consequences. We had been committed by the pattern of events to solving a number of issues at the same time. The Community's lack of cash was a major factor in the negotiation. Hence the argument put forward by some on the need to increase own resources. If these question, including the budget and the role of the CAP, were not resolved we would face a very serious combination of conditions. He himself had, at an earlier stage, been tempted to speak of the need to "break the back" of the negotiations at Athens but was no longer doing so because the phrase reduced expectations and implied that some of the problems would still remain after Athens. He hoped we could do better and complete the agenda. We must try our damndest and we did have a chance of success. The Community approach to new policies (on which we and the French had put forward proposals) would be an important part of the agenda. We must look at the dynamic elements of the Community. Our proposals and those of the French were more than window dressing. They represented a real commitment. We should draw our proposals together to get a short list for decision. We would not see eye to eye on all proposals but there were many where we could march together.

4. M Chandernagor agreed that a general declaration of intent on new policies would be of little benefit. Nor was there much sense in losing the issues in the Specialist Councils. We should aim to find one or two sectors in which our national enterprises could cooperate. This would not just improve the general climate but would constitute practical proposals which would give us credibility. If Britain and France could reach agreement we could then draw in our other partners.

5. Turning to expenditure, M Chandernagor said that he had just read the Court of Auditors Report. The report brought out very clearly that the structural funds were not geared to real need but were simply a way of making financial transfers. We should ensure that these funds only increased to the extent that they achieved

real results, on genuine projects. France had no specific suggestions at this stage.

6. Sir Geoffrey Howe agreed that Britain and France should try to make progress on new policies. Some areas of Community activity eg ESPRIT were near to readiness. Others would not require Community funding. To avoid misunderstanding, he wished to make it clear that the British Government was perhaps less disposed than the French to governmental initiatives but rather looked to facilitating spontaneous cooperation by individual companies. Maybe what we decided at Athens could facilitate rather than disrupt that process. M Chandernagor wondered whether structural funds would be in a state in which conclusions could be reached at Athens. Proposals for Integrated Mediterranean Programmes (IMPs) looked pretty formidable since they were really a structural fund though perhaps under another name.

7. M Cheysson said that on new policies he was attracted by the idea of getting together key people from France and Britain to agree a list which could then be submitted to Heads of Government. We should agree on methods and sectors. The likely areas were all in the documents that had been submitted. Officials should get together within a week or so. Sir Geoffrey Howe commented that there were some sectoral issues like ESPRIT which should be included. There were other less easily categorised requirements that could also be included eg the environmental issue of setting a date for lead-free petrol. M Cheysson said that it was also important to look at methods. We should organise the meeting to which he had referred before the next Special Council. Turning to structural funds, M Cheysson said that the description give by M Chandernagor represented the position of the French Government. There was only one way to make progress ie instead of making available funds and then finding programmes to fit them the funds should only be provided to fit a programme requirement. Youth unemployment, for example, had been identified as a priority area under the social fund. The Regional fund should be suitably directed under the general aegis of national governments.

Sir Geoffrey Howe commented that he was not certain how much of a reform of the regional fund could be achieved in this way.

M Chandernagor said that, as with food aid, the Community should try to fix eligible criteria. Sir Geoffrey Howe mentioned reconversion of old industries. Decline in agricultural production had been one sector mentioned in discussion at the last Special Council.

8. Referring to the powers of the European Parliament M Cheysson said that the global exercise on the European Community for which M Mitterrand had called some time previously, should include the budgetary powers of the European Parliament.

9. The issue of the Parliament's budgetary powers could only be addressed in the context of its powers overall. Dankert had recently said in private conversation during a visit to Paris that he would be prepared to see some reduction in the Parliament's budgetary powers in exchange for an increase in its normative powers. But all Member States fought shy over facing this problem and we could not jump into the cold water before Athens.

Sir Geoffrey Howe agreed that, as M Cheysson had said, the issue could not be addressed this side of Athens or before next year's European Parliamentary elections. M Cheysson pointed out, however, that when national parliaments came to consider the increase in own resources, this was the one opportunity available to member governments to change the powers of the Parliament. There would be no second chance.

10. Mr Hannay remarked that, as the country which had pressed for a strict financial guideline for the CAP, we could not deny the principle of stringent financial control for other funds. He noted that the Commission's ideas lent themselves to such an approach. It should be too difficult to agree with the Parliament on a more modest rate of growth. Sir Geoffrey Howe said it was very difficult to work on this on a time scale suitable for Athens but we should look at the problem in the next week or so to see how it may be handled. M Chandernagor doubted whether French

thinking was far enough advanced.

11. Future Financing

Sir Geoffrey Howe said that several different approaches were now on the table. The French proposed amendment to the Danish Convergence Fund was helpful because it involved reliefs on the revenue side. But the Danish proposal still failed to match up to the size of the problem. The French approach on duration was also helpful ie looking at qualitative criteria rather than just a set term. He wondered whether it would be possible for ourselves and the French to work out between us - together with German ideas - a sensible approach to the problem. There were some interests in common notably the additional burden of contributions which would be placed on Member States after enlargement.

12. M Cheysson said it would be very difficult to talk financing before the rest of the package became clear. The French Government had not yet decided its position on duration ie whether any scheme should be short or fixed by objective criteria. More serious was the difference between us on the issue of net contributions, and on this issue, the French thought that the arrangement should be closer to the Danish convergence fund ie related to spending in each country linked to GDP. Our disagreement on this was fundamental and M Cheysson did not think it possible to make progress on it during that evening's discussions.

13. M Chandernagor said that the concept of net contributions had been rejected by a number of countries. The French government endorsed these objections. If we were going to look at net contributions then we should look at the much wider picture also. The Danish convergence fund had the advantage that it was not based on net contributions, was not complicated, and had achieved a fair amount of support. Its merits had not really been explored closely.

14. Mr Rifkind said that, if the argument for net contributions was ignored any alternative set of proposals could provide only

short term relief. Sir Geoffrey Howe said that if one went beyond net contributions to non-budgetary costs as M Cheysson appeared to be suggesting, the consequences in terms of the balance of advantage would only increase the size of our claim. We had confined our case to the measured impact. As Chancellor of the Exchequer he had seen the reality of net transfers of resources. If, after enlargement, France found itself in a similar position, M Delors would quickly appreciate what he meant. One could not measure only one side of the burden, the problem was one of money in and money out. We must answer the vital question of measurement.

15. M Chandernagor said that the problem about net contributions had been well and definitively summarised by the Dutch when they said that under our proposal, the more New Zealand products we imported, the more we would be entitled to compensation.

Mr Williamson commented that it was quite wrong to suggest that the buying patterns of importers would be affected by considerations related to our net contribution. The net contribution was a consequence of importing patterns but did not itself determine what those patterns were.

16. Sir Geoffrey Howe said that M Chandernagor had usefully identified a number of different approaches. Net contributions was one. The Danish convergence fund was another. It might be useful to get together to see how these different components were identified. M Chandernagor reiterated that there were enormous differences which made discussion very difficult. Nor had France yet looked at the figures and at the end of the day figures would be very important.

CAP

17. Sir Geoffrey Howe said that, in a speech in July, M Cheysson had talked of the need to control costs in terms which he might have used himself. The British approach was double pronged. We had put forward proposals for a strict financial guideline but were also interested in structural changes. He wondered whether

the French approach would enable us to take enough decisions on the structural side. M Cheysson said that our proposals on agriculture were very different. Britain wanted a strict financial guideline which France could not accept because it was contrary to the rules of the CAP. As to the rest, our positions should be closer. France wanted the regulation of the different regimes. This was an economic problem. It was undesirable to have unmarketable surpluses. It was also a social problem. Growth in milk production was absurd and must be remedied. Amalgamation of the various methods proposed might provide an answer. He was comforted by the fact that no-one was taking immovable positions.

18. M Cheysson said that he was very concerned about MCAs. Positive MCAs created a particular anomaly. The Commission proposals for abolishing MCAs were fine but were unacceptable to the Germans because they would lower agricultural prices in Deutschmark terms. Equally, the German proposals were unworkable because they would create a Deutschmark zone. The green rate would be the same as the Deutschmark.

19. M Chandernagor said that agricultural agreement in the negotiations would need to be based on a package consisting of milk, cereals substitutes and MCAs. At present these represented a parcel of absurdities which must be unravelled. Other products were easier to deal with. The Commission's proposals could represent important savings of up to 600 mecu.

20. Sir Geoffrey Howe agreed with M Cheysson in rejecting the German approach to MCAs. Britain had a particular problem because of its variable MCAs and he had no insight as to how to solve it. He agreed that we must search for solutions on particular regimes. Mr Williamson commented that the Germans had at one stage reduced their MCAs and compensated their farmers by lowering VAT rates. M Cheysson commented that this might be an area which could be looked at again. Sir Geoffrey Howe said that we must recognise the differences between us on the strict financial guideline. We

were also very reluctant to see agricultural proposals directed against third country producers eg the oils and fats tax and cereals substitutes. He was not saying that the US were right in their approach to this. M Cheysson himself had talked of the need to prepare for a negotiation with the US. An important part of that preparation must be to avoid including in the package components which would make negotiation more difficult.

21. M Cheysson said that the arguments about oils and fats tax were very familiar to him. The present cost of subsidies was very high and Spanish entry into the EC would lift them to a fantastic level. The Commission's proposals were an effort to find a solution and he found it hard to think of what else could be done. He agreed that the negotiation with the US would be very difficult, particularly on cereals substitutes where US exports to the Community had increased by 30% in six months. He agreed that the US would not be pleased at the prospect that their sales might be blocked.

New Own Resources

22. Sir Geoffrey Howe said that without prejudice to the basic decision on whether an increase in New Own Resources was required, he wished to reiterate that our two prior conditions were vital. He wondered whether the French had come with an idea of what the upper limit on an increase in VAT might be. M Chandernagor said that some preliminary thought had been given to this subject. The French were thinking of something within the range of between 1.2 and 1.4%. What was crucial was to avoid giving Parliament a blank cheque for subsequent increases. The requirement of ratification by national parliaments must be maintained. When we had fixed a level, it should be such as to last for the next ten years. M Cheysson commented that bilateral official level talks on this subject would be worthwhile.

Institutions

23. Sir Geoffrey Howe asked whether the French had given any thought to eg the number of Commissioners there should be after

enlargement. We thought it might be sensible to limit the number of Commissioners to 12. We were not convinced that the present 14 were fully employed and wondered whether 17 (the pro rata increase after enlargement) would have enough work to do. M Cheysson said that we had time to consider these issues since they would not affect the next Commission. The enlargement of the Commission would not happen before ratification. Mr Hannay pointed out that the present Commission's period of office expired at the end of next year and that the new Commission would have to be appointed for 4 years. If we were to make changes they would have to be made then. Otherwise Portugal and Spain would enter the Community on the basis of the present rules and there would be no subsequent opportunity for change.

24. M Cheysson took this point. He said that there was a case for having less than 17 Commissioners but that it was important to differentiate between the larger and the smaller states. One possibility would be to have deputy Commissioners for the 4 large states. Another possibility would be for the smaller states to be grouped in twos ie to alternate in their representation on the Commission but this would be very difficult. M Chandernagor commented that it was not difficult to play with those figures. Ultimately a political decision was needed. The Commission should be strengthened (it was increasingly weak and timid). He would prefer a smaller number of Commissioners. A figure of 17 encourage within the Commission. M Cheysson said that France and Britain had always ensured that they nominated Commissioners of quality. This was not always the case with other countries. The Germans in particular, as he had said in the past to Chancellor Schmidt, sent decent but undistinguished men to the Commission. The appointment of a Commissioner was an important decision for a country. Really top men could exercise considerable influence. For example, the influence of a man like Davignon far exceeded the influence of the country from which he came. Thorn of Luxembourg was a similar example.

25. The meeting ended at 2015 hours when the Ministers left for No 10 Downing Street.

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