SUBJECT

FILE

ROJ

10 DOWNING STREET

THE PRIME MINISTER

3 November, 1983

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T173/83

Dear Mr. President,

When we discussed the post-Stuttgart negotiations we agreed that it would be useful for there to be discreet bilateral contacts in the weeks ahead to further our shared objective of taking decisions at the Athens European Council. You suggested that the right course was for each of us to appoint a senior official, who had our confidence, to undertake these contacts. I have asked Mr. David Williamson, the head of the European Secretariat of the Cabinet Office, to take this on. I suggest that, as soon as you have made your choice, our two representatives should be in direct touch to arrange a first meeting.

Yours sincerely

Margaret Thatcher

His Excellency Monsieur Francois Mitterrand

CONFIDENTIAL

File

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10 DOWNING STREET

From the Private Secretary

3 November 1983

Thank you for your letter of 31 October proposing that the Prime Minister should send a message to President Mitterrand confirming that she had appointed Mr. David Williamson as her representative in the discreet bilateral contacts envisaged with the French before the Athens European Council.

I enclose a letter signed by the Prime Minister. I should be grateful if you could arrange for its delivery.

I am copying this letter and enclosure to Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

(3)

PRIME MINISTER

You agreed with President Mitterrand that each of you would appoint a representative to carry out discreet bilateral contacts before Athens. You told me that you wanted David Williamson to be your representative. This is entirely acceptable to the Foreign and Commonwealth Secretary and the Chancellor.

Since David Williamson was already in touch with the Elysee I did not think that we need take any further action. But the Embassy in Paris believe that his hand will be strengthened if you send a formal message to President Mitterrand. If you agree you may care to sign the attached letter.

A.J.C.

1 November 1983

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CONFIDENTIAL

Qz.03436

MR COLES : to see o.v.

cc: Sir Robert Armstrong

EUROPEAN COMMUNITY, POST-STUTTGART NEGOTIATIONS: CONFIDENTIAL BILATERAL DISCUSSIONS WITH FRANCE AND GERMANY

I am still hammering away at these bilateral discussions, with the objective of improving the offers which will be on the table at Athens on the budget inequity and reducing the amount of disagreement on other issues. We have certainly not gone backwards and may have made some modest progress, but we shall not see this more clearly until after the Special Council (and meetings in the margins) on 28 November.

--- I have set out more fully in the attached minutes the results of my discussions with Herr Lautenschlager and Herr Tietmeyer and with Monsieur Morel.

D F Williamson

D F WILLIAMSON

22 November 1983

CONFIDENTIAL

Mr Coles

CONFIDENTIAL

Qz.03461

MR BONE, FCO

POST-STUTTGART NEGOTIATIONS: BILATERAL DISCUSSIONS WITH THE FRENCH

I have already reported briefly to the Foreign and Commonwealth Secretary on my discussions with Monsieur Morel in Brussels yesterday and today. This minute sets out the points more fully.

(i) The budget inequity. I made a strong effort to impress on M. Morel that he must brief President Mitterrand that a settlement can be reached but only on the basis

either of the safety net as we have proposed it

or of 2 mechanisms, ie relief related to payments share/ VAT share (it remained to be decided whether the top of the gap should be defined as the VAT share or the GDP share or the population share) and relief related to the disproportionate contribution of own resources to the Community budget (customs duties and levies). We recognised that the French did not like the Commission's original proposal for modulated VAT, which did not in any event respond directly to the problem. If so, I hoped that the French would look at a cleaned-up Dublin mechanism (ie relief related to own resources).

I again stressed our view that, in order to reach an agreement, an understanding between France, Germany and the United Kingdom that at the outset the French and United Kingdom net contributions might be at about the same level of 450 million ecu (1982 basis) and that a German limit would be established slightly above the level of their net contribution in the highest year, would make it more likely that a Community agreement on the necessary mechanisms could be reached.

I am sure that President Mitterrand will be briefed in this sense. Monsieur Morel seemed to have already accepted that relief related to the payments gap would be conceded by President Mitterrand. He remained, however, very difficult about the second element and I think that the President will be briefed that this second element will be demanded by the United Kingdom but that it will be very difficult to sell it in France. The most that M. Morel would concede was that "At Athens the President will trade big parcels".

(ii) The overall structure of the Athens package. M. Morel said that President Mitterrand attached extreme importance to structuring the discussion at Athens so that it did not become a repeat of the Stuttgart discussion on the 1983 refund, ie an argument concentrated almost entirely on the level of the United Kingdom net contribution under the revised budget arrangements. He stated that it was on the President's instructions that M. Delors had stated in the Special Council yesterday that the question of the level of own resources could only be tackled when the major elements on new policies, control of budget expenditure, agriculture, etc had been settled. This was intended to make clear to all member states, not just the United Kingdom, that France must have the new policies and other elements in a reasonable form before the budgetary discussion could be completed. He described this as "enhancing the global structure of the Athens negotiation".

(iii) Own resources. Despite the attachment of the French government to the global package, M. Morel told me that President Mitterrand would be briefed on the specific level of increase in own resources which might be acceptable if other conditions were met. He ridiculed talk of 2% or figures of that kind but said that the President was likely to consider 1.2% too little.

/(iv)

(iv) Cereal substitutes. I said that in our earlier discussions I had detected a certain willingness on the French side to seek a solution which did not involve a commitment to set the GATT procedures in train. I suggested that it would be possible to arrive at a text in which the Commission was given a mandate to negotiate for the stabilisation of imports of cereal substitutes (maize gluten feed and citrus pellets) with the principal suppliers. The Commission should be invited to report back to the Council of Ministers the terms on which an agreement might be reached, with a view to a decision whether such an agreement could be adopted or if not whether the Community should set in train any procedures under the GATT. This formulation does, of course, leave open the decision for the Council at a later stage.

(v) Enlargement. M. Morel said that President Mitterrand's thinking on this had changed considerably in the last few weeks. He would very probably now be able to accept in the Athens communique a reference to a specific date for the conclusion of the negotiations. If so, the French position would come into line with the United Kingdom position.

2. I am sending a copy of this minute to John Coles (No. 10), John Kerr (H M Treasury), Sir Robert Armstrong and Sir John Fretwell (British Embassy, Paris).

D F Williamson

D F WILLIAMSON

29 November 1983

Qz.03435

MR BONE, FCO

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

Following my discussion with Herr Lautenschlager and Herr Tietmeyer, recorded in my minute of 18 November, I had a long meeting with Monsieur Morel of the Elysee yesterday. The discussion was held in a very good atmosphere but I do not judge that we made any significant progress on the key issue of the budget. The main points were:-

(i) Financing and the budget inequity. I pressed on Monsieur Morel our view that, if there were an understanding between France, Germany and the United Kingdom that the revised system should at the outset give results which were fairly similar for France and the United Kingdom and not too far from the level of net contributions implied by the Germans' own paper, this should be negotiable with the other member states. It is, of course, understood between us that the higher we can push up the German figure at the beginning, while retaining German agreement, the easier will be the negotiation as a whole; a higher German figure at the beginning could be more acceptable if their exposure to higher net contributions in the medium term were somewhat lower. I found that Monsieur Morel continued to be interested in results of this kind and he placed less stress than the Germans on the difficulties of negotiation with other member states. His reaction, however, was more coloured than in the past by the difficulty of selling in France an arrangement which was apparently very favourable to the United Kingdom.

We discussed the United Kingdom's safety net scheme and the main elements of the proposals put forward by others. He reiterated the French objections to

/modulated VAT

modulated VAT, without explaining them further, and concentrated his attention on various forms of the payments share/GDP share gap. I said that it seemed to us that, apart from our own safety net, the most likely solutions to be on the table at Athens were the combination of modulated VAT and relief related to the payments share/VAT share <u>or</u> some other method of dealing with the excess contribution combined with the relief related to the payments share/VAT share. I said that if the French did not like modulated VAT, they should be thinking what other element should replace it in the sort of scheme put forward by the Germans. In my opinion Monsieur Morel has swallowed the payments share/VAT share relief but he was extremely conscious of the difficulty for President Mitterrand in trying to explain that in addition to this relief (which the French Government saw as a permanent system) there would be another element of relief directly related to the problem of the United Kingdom's high contribution of own resources. He baulked at this prospect.

We also discussed the special financing keys and I explained briefly the possible arrangement based on "headroom" (ie the difference between actual budgetary positions and safety net limits, subject to a limit, in the case of the less prosperous countries, to their share in the VAT base of all countries contributing to the reliefs).

On this part of the discussion I conclude that we have made the French think about an element additional to relief related to the payments share/VAT share but that their opposition to going beyond this relief is still strong.

/(ii) <u>Agriculture</u>.

(ii) Agriculture. Monsieur Morel repeated the point made by Monsieur Cheysson at the recent bilateral meeting, namely that agriculture was the centre of the negotiation for France and that within agriculture the monetary compensatory amounts were the critical point. He had had further discussions on this point with Dr Grimm of the Bundeskanzleramt before coming to London yesterday and there would be more negotiations during the Franco/German summit this week. On the existing positive monetary compensatory amounts he said that an agreement between France and Germany seemed possible; in response to my question about the reference in the Presidency's document to degressive aids partially financed by the Community, he said that for the present the French negotiators were keeping this option on the table because they had not ruled out the possibility that the Germans might make a first small step to dismantle their positive monetary compensatory amounts before the next annual price fixing, eg on 1 January, and that in that event the aid might be needed. On future monetary compensatory amounts he expressed - but not strongly - the French non-agricultural view of the disadvantages of tying the system to the strongest currency, ie the inflationary effect and the political unattractiveness of a special role for the deutschmark. He suggested tentatively that the system of a link with the strongest currency in order to avoid the creation of new positive monetary compensatory amounts might be adopted only for the period during which the existing stock of German positive monetary compensatory amounts remained. On the Commission's proposals for some changes in the method of calculation of monetary compensatory amounts he said that France now took the view that these would never be obtained if they did not get them in a European Council package. They were therefore pressing for this. I

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reiterated our existing position on a link with the strongest currency, our opposition to the proposals on adjusting the method of calculation and, in a low key, the need for workable arrangements for variable monetary compensatory amounts.

On milk, Monsieur Morel said that the quota/super levy system seemed to be the only way forward. It was clear from his other comments that the French were still casting around for ways of sweetening the pill (eg new methods of reducing the Community's stocks, in order to show that the new arrangements were not solely directed at milk producers). I stressed our views on price policy, price increases being an unacceptable and counter-productive way of sweetening the pill, but did not discourage his anxieties about the Community's stock levels, since this could make it easier for us to defend the general butter subsidy.

On cereal substitutes, I detected a slight weakening of the French position that we should simply press ahead with the GATT procedures. Monsieur Morel did not entirely rule out the idea that the European Council might ask the Commission to re-open discussions with suppliers of maize gluten feed and citrus pulp and to report back to the Council with a view to decisions. No doubt the French, if they follow this line in the end, will try to bind the Council more tightly. Nonetheless, the French position did seem slightly more open. Monsieur Morel said rather sadly that, if France had a settlement with no oils and fats tax and a rather weak formula on cereal substitutes, this would be difficult to present as an element for offsetting the strong medicine on milk.

On the strict financial guideline for agricultural expenditure, I said that the conditions laid down at Stuttgart were very clear. Monsieur Morel said that

 /France

France could probably accept the Commission's formulation but would wish the European Council also to apply a guideline or "code of good conduct" to non-agricultural expenditure. He confirmed the present state of disagreement in Paris about the amendment of budgetary procedures in order to set an annual VAT rate limiting the room for manoeuvre on the budget as a whole. He was concerned, however, that the bilateral talks (already under way between the Treasury and the Tresor) should continue, as the French position was not yet finally determined. I expressed our considerable interest in the French ideas on budgetary control and that, even if the French Government decided not to go the whole way now, it would be advantageous to include some reference to their ideas for wider reform in the Athens communique, if only as a first step.

(iii) Other policies. I said that we had studied the Presidency's revised document carefully and still had a number of important objections. We also recognised that the document probably did not go far enough to cover some of the French ideas on industrial cooperation. If the French Government was intending to propose any amendments in this sense, we would be very glad to consider them beforehand in order to decide whether or not we could support them. I repeated the importance which we attach to certain specific decisions in this package, on the lines which we had already set out in the Special Council. Monsieur Morel made three points:-

(1) it was now the French expectation that the commercial policy instrument would be included in this package and he implied that they were prepared to tone down some of their other views on external policy if this were the result;

(2) he stressed the personal interest of President Mitterrand in further initiatives to make the internal market more effective and to encourage Community initiatives on new technologies. The President was looking to take the first steps towards a greater realisation within the Community of the need for this action and he did not want to be diverted into specific arguments, such as he had had with Signor Craxi about the Tritium Laboratory;

(3) whatever was said in the Athens communique, it was essential that we should continue to build on our bilateral progress in public procurement, as now seemed possible in relation to Plessey in France and CIT/Alcatel in the United Kingdom. We needed greater Community competition in monopoly areas, such as some parts of the telecommunications field but "it would be madness to open up our public markets to Ma Bell's grand-children".

I do not think that we are too far from an agreement on an Athens communique on other policies which would include our specific points and a language on the French ideas which we could accept.

(iv) Social questions. Monsieur Morel gave notice that the French were becoming concerned that there had been no reference at all in the post-Stuttgart negotiations to social questions, although President Mitterrand had insisted that this should be one element at Stuttgart. For this reason, the French were making a statement in the single Preparatory Group today (I have told Sir Michael Butler) which would stress the importance

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of the "social dimension", suggest that at the European Council in Athens the Commission should be invited to provide a medium term programme on social affairs and ask that we should reiterate at Athens the need for taking action to aid youth employment. I said that my first reaction was that we would have no difficulty with this, provided that it did not imply legislation in those areas where we did not consider the best way forward was through legislation.

I have arranged to have further discussions with the French and the Germans in the margins of the next Special Council. I recommend that we should continue on the track which we have begun. We must use all means to maximise the possibility that at Athens we have on the table both the safety net and other methods of correcting the budget imbalance which are significant. We shall, of course, report more fully on our own preparations to the Foreign and Commonwealth Secretary on 25 November.

I am sending copies of this minute to John Kerr (Treasury) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

22 November 1983

CONFIDENTIAL

Qz.03425

MR BONE, FCO

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

I had a long discussion yesterday with Herr Lautenschlager and Herr Tietmeyer, most of the time being spent on the central budget problem. I had set myself two objectives:-

(i) to persuade the Germans that the difficulty for other member states in financing the United Kingdom's relief was not as great as they believe and, in particular, that an understanding between Germany, France and the United Kingdom (under which the net contributions of France and the United Kingdom at the outset would be similar) would make a Community agreement more probable. The underlying objective is, of course, to reduce the incentive for the Germans to argue for a higher United Kingdom net contribution, which they will otherwise do so long as they believe that the figures resulting from our proposal are not negotiable with other member states;

(ii) while maintaining our own position unchanged, to improve to the maximum extent possible the various elements which are included in the proposals already made by others or which might be included in a revised German (or Presidency) proposal.

2. On point (i) I found, as I expected, Herr Lautenschlager and, to a considerable degree also, Herr Tietmeyer greatly concerned with what will, in their view, be negotiable. Using our own safety net scheme I stressed that, if at the outset the French and British net contributions were at about the same level (ie the level which results from our own document) and even assuming a German net contribution at or about the level which they themselves have implied in their paper, the resulting figures for the remaining member states are not in the least unreasonable. Of course, our relief has to be financed from somewhere but, applying this

/system

system to the 1982 situation, all the other member states would remain net beneficiaries and the changes for the less prosperous are very modest. This special financing key is based on "headroom"; member states would finance reliefs in accordance with the "headroom" inside their limits, ie the differences between their actual net positions and their limits, but less prosperous countries would not have to pay more than their VAT shares after excluding beneficiary countries. The United Kingdom does not contribute to its own reliefs.

3. In the last resort the key under which the other member states finance the reliefs for the United Kingdom (and Germany) is not of great moment to us. The more acceptable, however, the distribution of the burden among other member states, the less the pressure against large relief to the United Kingdom. You will recall that many member states think in terms not of the effect of the new settlement on their net benefits, but in terms of their percentage contribution to the United Kingdom relief. Herr Tietmeyer noted very carefully what percentage each member state would contribute under the "headroom" special key and compared it with the special key proposed by the French. I hope that we have made at least some modest progress in persuading the Germans that the financing of reliefs on the scale we expect can be negotiated.

4. On point (ii), I discussed only on the basis that this was not the British but someone else's proposal. There are two conclusions to be drawn. First, the Germans are getting cold feet about modulated VAT (Commission's original proposal of 6 May). Although the Germans state that they themselves could see it in a final package, the French have been telling them that it is not acceptable. I said that we were well aware of the views of other member states now opposed to the Commission's modulated VAT proposal, but that we had not concluded that it was un-negotiable; this remained to be seen and the proposal should remain on the table.

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5. Secondly, and more importantly, Herr Tietmeyer advanced his personal idea for a solution based on the hypothesis that the (un-negotiable) modulated VAT would have to be replaced by something else for the United Kingdom. He suggested that the relief related to the payments gap should now relate to the difference between a member state's share of payments from the Community budget and its share of VAT (the payments/VAT share gap). This is more favourable for the United Kingdom than the earlier proposals. He also proposed that the safety net related to this gap should be established on the basis of German variant 1, ie the United Kingdom basis, as a percentage of GDP and that the system could be made more favourable to the United Kingdom and Germany by taking 0.006 rather than 0.007 in our limits formula. He estimated that the gap to which the United Kingdom's relief would relate would be about 1385 million ecu (1982 basis). I said that, irrespective of other points, this was not enough money. In my view the value of Herr Tietmeyer's personal suggestion is that, with each day that goes by, it becomes more probable that one element in the proposal to which other member states are laboriously moving, will be the payments/VAT share gap.

6. At this point, another element entered into Herr Tietmeyer's analysis: the German wish to defer the actual provision of more own resources until at least 1986. He suggested that, although relief related to the payments/VAT share gap should be the permanent system, two problems remained. The United Kingdom would have obtained substantial relief but not relief related to the whole of the net contribution and, in any event, something was needed in relation to 1984 and 1985. Furthermore, he argued that the burden falling on the United Kingdom from our high contribution of levies and customs duties would fall away as the unit rate of levies and duties fell. An interim solution was therefore necessary which would be based on relief related directly to the net contribution. This would be phased out and replaced by the permanent system based on the payments/VAT share gap. My advice is that this is quite unacceptable. We are not in the business of accepting a long term arrangement which is not good enough, with a short term supplement.

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7. After the meeting, however, I have reflected on a way in which we might be able to turn this to a significant advantage. If we called the German bluff about the alleged disappearance in the future of our excess contribution of levies and duties, it would be possible to have the following solution:

- <u>element 1</u>. Relief based on the difference between the share of payments from the Community budget and the share of VAT, as now suggested informally by the Germans. This takes care of our lack of adequate receipts from the Community.

- <u>element 2</u>. Relief based on the difference between own resources share and VAT share, this relief to last as long as a member state is contributing an excess amount of own resources (ie from levies and customs duties). In effect we should be saying to the Germans "you say that our problem of excess contributions of levies and duties will fade away. Alright, we shall have the relief until that happens". It is easy to add a condition ensuring that, although the scheme would be a Community scheme, only the United Kingdom would get relief on this element.

- elements 1 and 2 add up to relief on the net contribution.

8. To conclude, we might be able to manoeuvre towards the following menu:-

(i) The United Kingdom's safety net scheme.

(ii) Relief related to (a) the payments/VAT share gap and (b) the Commission's original proposal (with some amendments) for modulated VAT. This could give adequate relief to the United Kingdom (on the assumptions which we have taken in our own working document it would have resulted in a United Kingdom net contribution of 294 million ecu in 1981 and 266 million ecu in 1982). Strictly speaking, the modulated VAT, although it is likely to be a useful

/relief,

relief, does not deal directly with the question of our excess contribution of levies and duties.

(iii) Relief related to (a) the payments/VAT share gap and (b) the own resources/VAT share gap, element (b) being allegedly transitional, ie to remain in effect so long as the gap remains. This is the safety net related to net contributions in a different presentation. It could, however, have a different negotiating impact if we arrive at it by the German route rather than by repetition of our own position.

9. The atmosphere in my discussions was very good but I should indicate that in my view the German side was disappointed that I did not come with specific concessions or an indication of our willingness to agree to a higher net contribution than is implied in our safety net scheme. They will have to live with that disappointment.

10. I am sending copies of this minute to John Kerr (Treasury) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

18 November 1983

Cabinet Office

Qz.03410

MR COLES

POST-STUTTGART NEGOTIATIONS: CONFIDENTIAL DISCUSSIONS WITH THE FRENCH AND GERMANS

I should report that yesterday I had a confidential discussion in Paris with Monsieur Morel of the Elysee. I took the opportunity to float the idea that we might have a better chance of solving the problem of budget inequity if, while acknowledging our differences of principle, we also looked now at the figuring. I suggested that a possible solution might include:-

- a high limit for Germany, possibly higher than their current uncorrected net contribution, because the prime German requirement was that there should be some limit and that their budget contribution should be predictable;

- the net contribution of France and the United Kingdom at the outset should be broadly similar. It is interesting that, in reporting to Monsieur Attali and without prompting from me, Monsieur Morel suggested that the figures for a corrected net contribution for each country might be about 500 million ecu, ie not very different from our proposal in the safety net document.

2. The French were attracted to the idea that if we could reach some sort of understanding about the figures which would result from the final scheme, this would greatly improve the chances of obtaining an agreement of all member states (and help their objective of passing a greater part of the burden of our relief to the so-called "small rich" states).

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3. Any understanding between France, Germany and the United Kingdom needs very careful handling but I do believe that it would be in our interest to explore this further now with the French and with the Germans.

4. I should underline that this initiative does not mean any change in our existing proposal (the safety net setting a limit on net contributions). It is essential that we continue to state, both at the Anglo/German summit and elsewhere, that the net contribution is the best measurement of the budget inequity and that we need the scale of relief set out in our paper. The purpose of the separate discussions with France and Germany is to persuade them that the relief can be financed in a way which we could all accept. For this reason, we have sketched out in the attached note the line which the Prime Minister might wish to take with Chancellor Kohl on this point at the bilateral summit next week.

5. I am sending copies to Brian Fall (FCO), John Kerr (Treasury) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

4 November 1983

POST-STUTTGART NEGOTIATIONS: THE BUDGET INEQUITY

Line to take with Chancellor Kohl on 8-9 November

We must try to move towards a budget solution before Athens. Otherwise the European Council risks getting bogged down.

2. I agreed with President Mitterrand that we should have bilateral talks with his people for this purpose. I think you and I should do the same. The aim would be that France, Germany and the United Kingdom should try to agree the broad outline of a solution which all three of us can work for at Athens.

3. The elements would be:

(i) the United Kingdom and France would make net contributions of about the same size;

(ii) Germany to have a limit too, but higher because you are richer.

Your proposal in the Preparatory Group has helped to get some movement into the negotiation. But the French (and others) don't like one part of it - the Commission's modulated VAT. And we don't like the other - using the Danish expenditure gap as the measure of the size of the problem.

4. Under your proposal, you would have a relatively low limit (1900-2200 million ecu) and a high exposure to growth in your uncorrected net contribution. I believe that you and we and the French could agree if you would accept a higher initial limit with a lower exposure to later growth.

5. Could we agree that officials should explore this bilaterally - and separately with the French. The three of us must not appear to gang up. But if we - the future three only net contributors - can agree, we shall certainly not fail to get our way.