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FRAME ECONOMIC  
DESKBY 151145Z  
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TO IMMEDIATE F C O  
TELEGRAM NUMBER 354 OF 15 MARCH  
INFO PRIORITY UKREP BRUSSELS,  
INFO ROUTINE OTHER EC POSTS.

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EUROPEAN COUNCIL: FRENCH APPROACH

SUMMARY

1. THE FRENCH NOW SEE THE EUROPEAN COUNCIL AS ESSENTIALLY A CONTEST WITH THE UK OVER BUDGET REFUNDS. MITTERRAND HAS RETAINED FLEXIBILITY OVER WHETHER AND WHERE TO STRIKE A BARGAIN. HE WOULD LIKE A SUCCESS BUT PROBABLY RECKONS THAT THE ALTERNATIVE STRATEGY OF ISOLATING AND PILLORYING THE UK WOULD GO DOWN QUITE WELL IN FRANCE.

DETAIL

2. THE FRENCH HAVE SUCCEEDED IN CLEARING AWAY MANY OF THE SUBSIDIARY ISSUES SO THAT NEGOTIATION AT THE EUROPEAN COUNCIL CAN FOCUS ON THE LEVEL OF UK REFUNDS. FOLLOWING THE APPARENT WEAKENING OF DELORS' INFLUENCE OVER THE FRENCH NEGOTIATING HAND THEY APPEAR CONTENT WITH A FAIRLY LOOSE FORMULA FOR THE CONTROL OF FUTURE EXPENDITURE - THE BUDGET GUIDELINE - AND WITH A PROSPECTIVE INCREASE IN THE VAT CEILING GOING BEYOND 1.4 PER CENT. MITTERRAND WILL BE SATISFIED TO STAY IN THE MIDDLE OF THE PACK ON THESE ISSUES. ON THE VAT CEILING IT MIGHT SUIT HIM TO SECURE A DECISION OF PRINCIPLE FOR AN INCREASE, LEAVING THE FIGURE TO BE FILLED IN LATER IN THE LIGHT OF DECISIONS ON AGRICULTURE ETC - A SORT OF BLANK CHEQUE.

3. MITTERRAND WILL COUNT ON A SOLID FRONT AGAINST THE UK FOR EXCLUDING LEVIES AND DUTIES FROM THE CALCULATION OF THE NET CONTRIBUTION. HE WILL ENCOURAGE OTHERS TO JOIN HIM IN CONCENTRATING ON THE SIZE OF THE REFUND RATHER THAN ON THE RESIDUAL CONTRIBUTION. HE WILL LOOK FOR THE BARGAINING TO START AT SOMETHING LIKE 700 MECU VERSUS 1600 MECU. HE WILL EXPECT TO HAVE THE DECISIVE VOICE IN



~~HE WILL EXPECT TO HAVE THE DECISIVE VOICE IN~~  
DETERMINING HOW HIGH THE OFFER OF THE NINE SHOULD BE RAISED, THOUGH HE WILL MAKE FULL USE OF THE RELUCTANCE OF THE ITALIANS AND PERHAPS OTHERS TO GO VERY FAR. IT WILL NOT BE POSSIBLE TO JUDGE IN ADVANCE WHERE HIS LIMIT MAY LIE. ONE ELEMENT IN THE CALCULATION MUST BE WHAT THE GERMANS WILL BEAR WITHOUT INSISTING ON A REFUND THEMSELVES. BUT IT WILL DEPEND IN LARGE PART ON THE FRENCH ASSESSMENT OF HOW THE CAP WILL OPERATE IN THE ABSENCE OF AN AGREEMENT ON OWN RESOURCES, FOR HOW LONG AND WITH WHAT ALTERNATIVES IN VIEW. THE FRENCH MUST HAVE LOOKED INTO THIS ABYSS BUT HAVE NOT REVEALED IF THEY SEE SOME WAY ROUND IT.

4. MITTERRAND WOULD LIKE A SUCCESS AT THE COUNCIL. IT WOULD RAISE HIS STATURE DOMESTICALLY AND INTERNATIONALLY AS THE MAN WHO "SAVED EUROPE" AND POINT THE CONTRAST WITH THE LAST PRESIDENCY. HIS CURRENT STANDING IN THE POLLS IS AT ITS LOWEST EVER: HIS PARTY IS HEADING FOR A PROBABLE SETBACK IN THE EUROPEAN ELECTIONS; HE FACES DIFFICULTIES OVER INDUSTRIAL RESTRUCTURING AND EDUCATIONAL REFORM; THERE MAY BE VIOLENCE FROM FARMERS OVER PROMISED CUTS IN MILK PRODUCTION AND OVER ENLARGEMENT OF THE COMMUNITY. HIS POSITION IN LEBANON AND CHAD IS STILL EXPOSED. IT WOULD BE A GOOD MOMENT FOR HIM TO BRING HOME A RESOUNDING SUCCESS FROM BRUSSELS.

5. ON THE OTHER HAND THE OPPOSITION AND VARIOUS PRESSURE GROUPS ARE WAITING TO GET AT HIM IF HE CAN BE HELD TO HAVE GIVEN TOO MUCH AWAY. HE IS TO SOME EXTENT THE PRISONER OF POSITIONS HE HAS TAKEN PUBLICLY IN THE PAST AND I AM NOT SURE THAT HE HAS GRASPED EVEN NOW THE NECESSITY FOR A GENUINELY EQUITABLE LONG-TERM SETTLEMENT; HE STILL FOCUSSES ON HOW MUCH HE AND OTHERS ARE CONCEDED IN RELATION TO EXISTING ARRANGEMENTS. MOREOVER THE ALTERNATIVE STRATEGY OF DENOUNCING THE UK FOR OB DURACY AND FOR PUTTING THE FUTURE OF THE COMMUNITY IN DANGER WOULD ALSO HAVE ITS DOMESTIC ATTRACTIONS. THERE IS A FLOOD OF ANTI-BRITISH SENTIMENT WHICH CAN READILY BE UNLEASHED AND EXPLOITED. WITH THE GOVERNMENT AND OPPOSITION OUT-BIDDING EACH OTHER A GOOD DEAL OF BITTERNESS COULD EASILY BE AROUSED AND FOR A TIME AT LEAST IT WOULD APPEAR ATTRACTIVE TO BE ACTING AS IF THE AIM WERE TO RUN THE COMMUNITY WITHOUT THE UK. THERE WOULD BE A STRONG TEMPTATION TO RAIL-ROAD THROUGH DECISIONS ON VARIOUS MATTERS, INCLUDING AGRICULTURAL PRICES, BY MAJORITY VOTE.

6. I CANNOT JUDGE HOW REALISTIC SUCH A STRATEGY MIGHT BE, OR FOR HOW LONG, IN THE ABSENCE OF AGREEMENT ON ANY INCREASE IN OWN RESOURCES, BUT IT WOULD BE AN ALTERNATIVE WAY FOR MITTERRAND TO LOOK TOUGH AND EFFECTIVE AT LEAST UP TO THE EUROPEAN ELECTIONS. IF AGRICULTURAL FUNDS WERE INEXORABLY DRYING UP, HIS LAST STATE WOULD BE WORSE THAN HIS FIRST, BUT HE MIGHT MANAGE TO COOK UP WITH KOHL SOME ARRANGEMENT FOR TEMPORARY FUNDING IN ORDER TO AVERT AN IMMINENT THREAT TO THE OPERATION OF THE CAP AND THEREBY BUTTRESS HIS POSITION FOR FURTHER BARGAINING. IN GENERAL HE WILL BE WELL CONTENT AT THE WAY IN WHICH KOHL APPEARS TO BE FOLLOWING IN THE FOOTSTEPS OF PREVIOUS CHANCELLORS IN GIVING OVERRIDING PRIORITY TO GOOD RELATIONS WITH FRANCE WITHIN THE COMMUNITY AT SOME COST TO GERMAN INTERESTS AND NO COST TO FRENCH. THE TOUGHNESS OF HIS BARGAINING STANCE WILL BE INFLUENCED BY HIS CONFIDENCE THAT THE GERMANS WILL STAND WITH HIM IN DEALING WITH A COMMUNITY CRISIS IF ONE ARISES.

FRETWELL



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The situation in 1983

The United Kingdom's net contribution in 1983,  
before adjustment, was 1913 million ecu  
(£1115 million)

The United Kingdom's actual net contribution  
in 1983, adjusted by the ad hoc  
1983 refund, was 1163 million ecu  
(£675 million)

If we deduct from the United Kingdom's net  
contribution in 1983 the average refund  
obtained under the 4 year ad hoc  
arrangements, the result is 791 million ecu  
(£480 million)

(The 4 year average of the United Kingdom's net contribution  
to the Community budget, after receipt of refunds, over  
the period 1980-83 was about 598 million ecu  
(£350 million))

1913  
1200  
713



The United Kingdom's safety net proposal, if applied to 1983

The United Kingdom's adjusted net contribution, if the new fair sharing arrangement (safety net) had applied in 1983, would have been -

- 12.
- (a) 206 million ecu    [UK safety net proposal]
- (£120 million)
- (b) 533 million ecu    [UK safety net proposal, using
- (£310 million)      relative prosperity index of
- Community of 12]

Even if the Community had increased the VAT ceiling to 1.4% and had used all the extra money, the United Kingdom's adjusted net contribution in 1983 under the new fair sharing system (safety net) would have remained at 206 million ecu (£120 million) (or 533 million ecu (£310 million)).

The VAT share/expenditure share gap proposal, if applied to 1983

You will recall that, in the paper for President Mitterrand, we suggested some technical changes in order to make the basic VAT share/expenditure share gap scheme give a low UK limit.

If the VAT share/expenditure share gap scheme had applied, the United Kingdom's adjusted net contribution in 1983 would have been -

- (c) 292 million ecu    [VAT share/expenditure share gap
- (£170 million)      proposal, using threshold 1 in
- the paper for President Mitterrand]
- (d) 292 million ecu    [VAT share/expenditure share gap
- (£170 million)      proposal, using threshold 2 in
- the paper for President Mitterrand]
- (e) 396 million ecu    [(c) using relative prosperity
- (£230 million)      index of Community of 12]
- (f) 464 million ecu    [(d) using relative prosperity
- (£270 million)      index of Community of 12]

All the figures under the United Kingdom's own proposal and under the technically corrected VAT share/expenditure share scheme are substantially better than our actual adjusted net contribution in 1983.



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If the new system were to contain a "ticket modérateur" of 5%, the figures at (a) to (f) above would be 292 million ecu (£170 million), 602 million ecu (£350 million), 378 million ecu (£220 million), 378 million ecu (£220 million), 482 million ecu (£280 million) and 533 million ecu (£310 million). All these figures are better than the United Kingdom's actual net contribution in 1983. With a small "ticket modérateur" there would also be a small increase in our adjusted net contribution if the Community's total spending rose: the smaller the "ticket modérateur", the smaller will be this effect.

Cabinet Office

14 March 1984