

IMMEDIATE

ADVANCE COPIES

FRAME ECONOMIC

19
20 PROX COF

PS
S/REKIND.
~~MR G TICKELL~~
MR G TICKELL
MR HANWAY
MR FAIRWEATHER ECD (1)
MR WALL ECD (1)

RESIDENT CLERK
ED/ECOD (1) (3)
ED/NEWS D
ED/ERD
ED/
ED/

PLUS FCO

CABINET OFFICE

MR D WILLIAMSON
MR G STAPLETON
MR M PEARSON
MR D E C DURIE

DOT

PLUS GGDS

MR P KENT
MR M CUSTON
MR G LORSE

HM TREASURY

MR J B UNWIN
MISS J E COURT
MR J G LITTLE
MR J E MORTIMER
MR FITCHEW

MAFF

PERMANENT SECRETARY
MR FRANKLIN
MR ANDREWS

NO 10 DS
(FOR SEC/STATE)
CHEQUERS

MR COLES

A.J.C. 26/3.

p.a.

GRS 1650

CONFIDENTIAL

FRAME ECONOMIC

FM BONN 241420Z MAR 84

TO IMMEDIATE DESKBY FCO 241630Z

TELEGRAM NUMBER 312 OF 24 MARCH

INFO IMMEDIATE UKREP BRUSSELS, PARIS

INFO ROUTINE ATHENS, EMBASSY BRUSSELS, COPENHAGEN, DUBLIN,
LUXEMBOURG, ROME, THE HAGUE

YOUR TELNO 183: MY CALL ON GENSCHER

1. I HAD ABOUT 40 MINUTES WITH GENSCHER THIS MORNING.
2. I READ OUT TO HIM PARAGRAPHS 1 AND 2 OF TUR. GENSCHER COMMENTED TWICE TO SAY THAT:
 - (A) THE GERMAN POSITION WAS THAT THEY SUPPORTED THE PRESIDENCY SYSTEM, AND
 - (B) THAT HE CONFIRMED THE GERMANS UNDERSTOOD THAT THE PRIME MINISTER HAD BEEN READY TO ACCEPT AN AD HOC REFUND OF 1,000 MECU FOR 1984 FOLLOWED IN THE SECOND YEAR BY THE ADOPTION OF A SYSTEM.
3. WITH REGARD TO YOUR PROPOSAL FOR A WORKING BREAKFAST ON 27 MARCH, GENSCHER SAID HE WAS HAPPY TO TAKE UP YOUR INVITATION. HE INSTRUCTED HIS PRIVATE SECRETARY TO RESCHEDULE AN APPOINTMENT

HE INSTRUCTED HIS PRIVATE SECRETARY TO RESCHEDULE AN APPOINTMENT WITH VOGEL (LEADER OF THE SPD) ALREADY FIXED FOR THAT TIME, AND TO GET IN TOUCH WITH YOUR PRIVATE SECRETARY ABOUT THE DETAILS OF WHEN AND WHERE YOU AND HE WOULD MEET ON TUESDAY. HE SUGGESTED STARTING AT 8.45.

4. GENSCHER SAID THAT HE WAS VERY GLAD TO HEAR THE POINTS IN PARA 1 (H), (HH) AND (HHH) OF TUR. WHAT YOU HAD SAID CORRESPONDED VERY CLOSELY TO HIS AND THE GERMAN POSITION. HE ADDED THAT THE GERMANS ATTACHED THE GREATEST IMPORTANCE TO AVOIDING ANY DISPUTES WITH HMG WHETHER IN PRIVATE OR IN PUBLIC. SUGGESTIONS THAT BRITAIN SHOULD BE ISOLATED OR LEAVE THE COMMUNITY WERE NONSENSE. HE REFERRED TO AN ARTICLE OF HIS PUBLISHED YESTERDAY AND TO AN INTERVIEW HE HAD GIVEN TO DER SPIEGEL WHICH WILL BE PUBLISHED ON 26 MARCH. THE BASIC GERMAN ASSESSMENT OF THE EUROPEAN COUNCIL WAS SET OUT IN THESE TEXTS.

(COMMENT: QUOTATIONS FROM HIS ARTICLE APPEARED IN TODAY'S BONN GENERAL ANZEIGER ACCORDING TO WHICH HE DESCRIBED ATTEMPTS TO ISOLATE OR DRIVE BRITAIN OUT OF THE COMMUNITY AS 'CRAZY AND IRRESPONSIBLE', ADDING THAT THEY WOULD MEET THE DETERMINED OPPOSITION OF THE FEDERAL GOVERNMENT. THE COMMUNITY WOULD LOSE MORE THAN A SINGLE MEMBER IF BRITAIN LEFT. THE GERMANS ABOVE ALL KNEW THIS BECAUSE OF LONDON'S ROLE AS A GUARANTOR OF BERLIN. FOR HER PART, BRITAIN MUST RECOGNISE THAT THE ADVANTAGES OF MEMBERSHIP OF THE COMMUNITY OUTWEIGHED BY FAR THE DISADVANTAGES.) HE WENT ON TO SAY THAT HE WAS ALSO GLAD THAT ON THE STUTTGART PACKAGE BRITISH AND GERMAN VIEWS REMAINED, AS THEY HAD ALWAYS BEEN, SO CLOSE. HE SAID THE GERMANS WERE VERY KEEN TO ACHIEVE ECONOMIES ON THE CAP AND TO ACHIEVE GREATER FINANCIAL DISCIPLINE. HE HOPED THE GERMANS AND THE BRITISH COULD SUPPORT ONE ANOTHER IN ACHIEVING THESE AIMS.

5. WITH REGARD TO THE PROPOSAL MADE AT THE EUROPEAN COUNCIL BY CHANCELLOR KOHL, HE SAID THAT THE AIM OF THIS HAD BEEN TO REVIVE THE NEGOTIATIONS WHICH HAD SEEMED TO THE GERMANS TO HAVE REACHED DEADLOCK. THE GERMAN PLAN WAS THAT THE AD HOC ARRANGEMENT WOULD BE TRANSFORMED, AFTER A PERIOD, INTO THE PRESIDENCY SYSTEM. BUT THE GERMANS WOULD BE PERFECTLY HAPPY TO SEE THE SYSTEM ENTER INTO FORCE SOONER - IT COULD BE AFTER 5 OR 3 OR 2 YEARS OR 1. IN ANSWER TO A QUESTION, HE SAID THAT THE PRESIDENCY TEXT WOULD OF COURSE HAVE TO BE AMENDED SO THAT THE GERMAN CONTRIBUTION TO THE CORRECTION SHOULD BE AT TWO THIRDS THE NORMAL VAT SHARE.

6. FOR THE BRITISH AND ALSO FOR THE GERMANS THE DYNAMIC OF THE SYSTEM WAS, GENSCHER SAID, THE VITAL POINT. IT WAS ALSO VITAL FOR THE GERMANS THAT THE THRESHOLD FOR BRITAIN SHOULD BE COMPATIBLE WITH THE SETTING OF A THRESHOLD FOR THE FEDERAL REPUBLIC WHICH WOULD ACTUALLY WORK. ON THE QUESTION OF THE GERMAN CONTRIBUTION TO BRITISH REFUNDS, GENSCHER SAID THAT THE GERMANS HAD ALREADY SECURED AGREEMENT IN RELATION TO COMPENSATION FOR 1982 AND 1983 THAT THEIR SHARE SHOULD BE REDUCED TO 50 PER CENT. HE ADDED THAT AT THE EUROPEAN COUNCIL THE GERMANS HAD MISSED BRITISH SUPPORT ON A REDUCTION OF THEIR SHARE. THE FEDERAL CHANCELLOR HAD PROPOSED INCREASING THE GERMAN SHARE TO TWO THIRDS SO AS TO MAKE IT POSSIBLE FOR AN OFFER TO BE MADE. THE ONLY OPEN QUESTION WAS THE BASIC FIGURE FOR BRITAIN.

IF IT WAS 1,000 MECU IN THE FIRST YEAR THEN IT WOULD RISE THEREAFTER. AGREEMENT COULD BE REACHED ON THAT. BUT IF THE BASIC FIGURE WAS 1,250 MECU THEN IN THE FOLLOWING YEARS IT WOULD BE MUCH HIGHER. AGREEMENT ON THAT COULD NOT BE REACHED. HE STRONGLY RECOMMENDED THAT WE SHOULD ACCEPT 1,000 MECU AS THE STARTING POINT. IT WAS HIGHLY DESIRABLE TO GET EVERYTHING SETTLED NEXT WEEK.

IT WAS HIGHLY DESIRABLE TO GET EVERYTHING SETTLED NEXT WEEK. THERE WERE ONLY TWO PROBLEMS - THE STARTING FIGURE FOR BRITISH REFUNDS IN THE SYSTEM AND THE IRISH PROBLEM. HE SAID HE SHARED WITH THE FRENCH THE OBJECTIVE OF GETTING OUTLINE AGREEMENT AT THE AGRICULTURAL COUNCIL ON ALL ISSUES EXCEPT THE IRISH PROBLEM WHICH SHOULD BE DEALT WITH, LIKE BUDGETARY IMBALANCES, AT THE FAC.

7. HE POINTED OUT TO GENSCHER THAT IN COMING DOWN FROM 1,500 MECU THE PRIME MINISTER HAD MADE A VERY GREAT COMPROMISE. THE PARTNERS HAD NOT MOVED AT ALL. GENSCHER CONTESTED THIS AND MAINTAINED THAT THE PARTNERS HAD IN FACT STARTED AT 750. HE ALSO POINTED OUT THAT ALTHOUGH IT COULD BE ASSUMED THAT THE SIZE OF REFUNDS WOULD, AS A RESULT OF THE DYNAMIC NATURE OF THE SYSTEM, INCREASE, THAT WOULD NOT AFFECT THE PROPORTION OF COMPENSATION WE WOULD RECEIVE. IN AGREEING TO THE PRESIDENCY PROPOSAL WE HAD ACCEPTED THAT PART OF OUR LEVIES AND DUTIES WERE LEFT OUT OF ACCOUNT. WE HAD MADE CONCESSIONS BOTH ON METHODOLOGY AND ON THE FIGURES. COMPENSATION FOR BRITAIN HAD OVER THE YEARS BEEN AT THE RATE OF TWO THIRDS. THIS WAS A KEY POINT AND ALSO IMPORTANT PRESENTATIONALLY IN THE HOUSE OF COMMONS. THE FIGURE OF 1,250 MECU WAS A NOTIONAL FIGURE RELATING TO THE OUT-TURN IN 1983 ON THE BASIS OF A COMMUNITY OF 12. THE ACTUAL FIGURE FOR A SYSTEM THAT CAME INTO EFFECT FIRST IN RELATION TO 1985 WOULD OF COURSE BE DIFFERENT.

8. GENSCHER SAID THAT IN ACHIEVING AGREEMENT ON A SYSTEM BOTH THE GERMANS AND THE BRITISH HAD IN EFFECT BROUGHT THE OTHERS TO ACCEPT A CHANGE IN THE TREATY. THIS MARKED A DRAMATIC SHIFT IN THE FRENCH POSITION. FOR THE GERMANS TO ACCEPT A STARTING FIGURE OF 1,000 MECU WOULD ALSO NEED CAREFUL PRESENTATION TO THE BUNDESTAG BUT IT COULD BE DONE BY REFERRING TO THE VALUE OF A DYNAMIC SYSTEM FOR THE FEDERAL REPUBLIC AND THE PROTECTION IT WOULD AFFORD IN RELATION TO THE GROWTH OF THEIR TOTAL NET CONTRIBUTION. HE SUGGESTED THAT A SYSTEM BASED ON 1,000 MECU COULD BE DEFENDED IN BRITAIN ON THE GROUNDS THAT A LASTING SYSTEM HAD FINALLY BEEN ACHIEVED AND THAT THEREBY THE ANNUAL STRIFE OVER THE SIZE OF COMPENSATION FOR BRITAIN WAS A MATTER OF THE PAST. IT WAS WORTH PAYING A PRICE FOR THAT ACHIEVEMENT. HE ALSO SEEMED TO IMPLY THAT EVEN IF THE STARTING FIGURE WAS 1,000 MECU IT WOULD BE POSSIBLE IN THE SUBSEQUENT NEGOTIATION OF THE DETAIL BY THE FINANCE MINISTERS TO ACHIEVE SOME IMPROVEMENT. HE DISPUTED THIS LAST POINT AND REMINDED GENSCHER THAT WHAT WE WERE BEING ASKED TO ACCEPT WAS THAT WE SHOULD PAY A DISPROPORTIONATELY LARGE CONTRIBUTION INDEFINITELY, IE 50 PER CENT OF OUR NET CONTRIBUTION. THAT WAS SIMPLY TOO MUCH. THE PM'S READINESS TO ACCEPT AN AD HOC REFUND OF 1,000 IN RESPECT OF 1984 WAS A CONCESSION TO THE COMMUNITY'S CURRENT FINANCIAL DIFFICULTIES. IT COULD NOT BE THE BASIS OF A DURABLE SYSTEM. HE ALSO POINTED OUT THAT INCREASING OWN RESOURCES ALSO MEANT CHANGING THE TREATY AND THAT THE FRENCH WOULD THEMSELVES NEED A REFUND SYSTEM AFTER ENLARGEMENT. GENSCHER CONCLUDED BY SAYING THAT HE COULD ONLY ADVISE THAT WE SHOULD RECOGNISE THAT THE CRUCIAL POINT WAS GETTING A DYNAMIC SYSTEM.

REFORM OF THE CAP

9. GENSCHER SAID THAT THE GERMANS WERE CONCERNED SOMEHOW TO RETAIN A LEVER WHEREBY THEY COULD ENSURE THAT AGREEMENT IN PRINCIPLE REACHED NEXT WEEK ON CAP REFORM. FINANCIAL DIFFICULTIES

9. GENSCHER SAID THAT THE GERMANS WERE CONCERNED SOMEHOW TO RETAIN A LEVER WHEREBY THEY COULD ENSURE THAT AGREEMENT IN PRINCIPLE REACHED NEXT WEEK ON CAP REFORM, FINANCIAL DISCIPLINE AND BUDGETARY IMBALANCES, WOULD BE TURNED INTO DETAILED EFFECTIVE TEXTS BY THE TIME OF THE JUNE SUMMIT. HE WOULD WELCOME YOUR VIEWS ON HOW THAT COULD BE DONE. IT WAS VITAL TO KEEP THE STUTTGART PACKAGE TOGETHER.

MILK

10. WITH REFERENCE TO THE IRISH DIFFICULTIES OVER MILK, GENSCHER SAID THAT THE FEDERAL GOVERNMENT WERE SYMPATHETIC. AGRICULTURE WAS THE BACKBONE OF THE IRISH ECONOMY AND THE MILK SECTOR WAS THE BACKBONE OF IRISH AGRICULTURE. THE GERMANS HAD BEEN READY TO INCREASE THE COMMISSION'S RESERVE TO A MILLION TONNES OF WHICH 600,000 TONNES WOULD BE FOR IRELAND. THE GERMANS WOULD STAND BY THAT BUT HE WAS NOT SURE WHETHER FITZGERALD'S WALK OUT HAD BEEN AIMED AT SECURING THE ADDITIONAL 600,000 TONNES OR WHETHER HE REALLY WANTED MORE. IF THE LATTER WAS TRUE, FITZGERALD WAS BEING UNREALISTIC. HE SAID THAT WE TOO HAD A SYMPATHY FOR IRELAND'S PROBLEMS BUT, REFERRING TO MR JOPLING'S STATEMENT, HE POINTED OUT THAT IF AN EXCEPTION WAS MADE FOR IRELAND THEN IT WOULD BE NECESSARY FOR AN EXCEPTION TO BE MADE FOR NORTHERN IRELAND AS WELL. THE ECONOMIC PROBLEMS OF NORTHERN IRELAND WERE WELL KNOWN AND FURTHERMORE IT WOULD BE IMPOSSIBLE TO INSULATE THE AGRICULTURAL SYSTEM THERE FROM THE REPUBLIC. GENSCHER SAID THAT HE THOUGHT THAT POLITICALLY UNACCEPTABLE. IT WAS NOT POSSIBLE TO ARGUE THAT NORTHERN IRELAND BELONGED TO BRITAIN EXCEPT IN RELATION TO MILK WHEN IT BELONGED TO THE REPUBLIC. HE REEMPHASISED THE DIFFICULTIES. HE ADDED THAT IF THE PROBLEM OF BUDGETARY IMBALANCE COULD BE SOLVED THEN HE WAS CONFIDENT THAT FITZGERALD WOULD NOT HOLD OUT ON HIS OWN.

1100 MECU

11. REFERRING TO THE DISCUSSION ON THE FIRST EVENING OF THE EUROPEAN COUNCIL WHEN THE FIGURE OF 1100 MECU HAD BEEN MENTIONED, HE ASKED GENSCHER WHAT THE CHANCELLOR'S ATTITUDE TO IT WAS. GENSCHER SAID THAT HIS UNDERSTANDING WAS THAT SOME HAD MENTIONED A THOUSAND, SOME HAD MENTIONED LESS AND SOME HAD MENTIONED 1100. A THOUSAND CAME TO BE REGARDED AS A REASONABLE COMPROMISE.

12. GENSCHER SAID THAT ON THE MORNING FOLLOWING THE COUNCIL HE HAD TELEPHONED CHEYSSON TO SAY THAT HE FELT THE COUNCIL HAD NOT DONE TOO BADLY, A GOOD DEAL HAD BEEN AGREED AND IT OUGHT TO BE POSSIBLE TO MAKE FURTHER PROGRESS. HE THOUGHT THAT MINISTERS SHOULD MEET AGAIN SOON. HE HAD BEEN DELIGHTED TO FIND THAT CHEYSSON HAD COME TO A SIMILAR ASSESSMENT AND SUBJECT TO MITTERRAND'S VIEWS WOULD BE PROPOSING AN EARLY MEETING OF THE FAC. GENSCHER SAID THAT HE FELT THAT AGREEMENT WAS WITHIN REACH AND THAT HE WOULD BE GOING TO THE COUNCIL ON TUESDAY IN AN OPTIMISTIC FRAME OF MIND AND READY TO DO ALL HE COULD TO REACH AGREEMENT. HE SAID THAT YOUR APPROACH TO THE COUNCIL WAS IDENTICAL BUT THAT FOR US A KEY POINT WOULD BE THE STARTING FIGURE FOR THE SYSTEM.

FCO PLEASE PASS ADVANCE COPIES (BY 9AM 26/3/84) 59:
CABINET OFFICE - WILLIAMSON, DURIE, STAPLETON
FCO - PS, TUCKELL, HANNAY, FAIRWEATHER, WALL
TREASURY - UNWIN, FITCHEW, MORTIMER
MAFF - FRANKLIN, ANDREWS

NO 12 - 6055