EUROPEAN COMMUNITY: NEGOTIATIONS

1. The discussion in the Foreign Affairs Council in Luxembourg on 9-10 April on Budget Imbalances was completely unproductive. Cheysson chose to play this as an attempt to give an impression of total blockage caused by our supposed unwillingness to move beyond positions taken up at the European Council. His aim clearly was to preserve a 9:1 line-up. I was told by Davignon that Cheysson has been arguing that neither the French nor the Community should make any attempt to bridge the gap. There was, I suspect, some consultation between Cheysson and Genscher before the Council. Cheysson stated that the only proposition now on the table was Kohl's offer of a 1000 mecu refund over the next five years. As I made clear, this is totally unacceptable.

2. I had hoped to use this Council to give some additional impetus to Davignon's attempt to find a solution by fixing the threshold and rate of compensation for our returns (which has obvious advantages over simply fixing a nominal rate of refund in 1983). Davignon's scheme, if the parameters can be got right, looks promising from our point of view. Thorn, however, was not prepared to give any undertaking in the Council that the Commission would make new proposals.

3. The reason was that Davignon's proposals came as a shock to the French, who realise that they give us a very large measure of protection and would rapidly increase their own contribution. Attali in particular reacted strongly to them. Dumas told me that Mitterrand's present position is that the uncertainties are too great about Community expenditure after enlargement (about which the French are greatly concerned); and that therefore we should be offered only finite refunds over the next two to three years. I made clear that we regarded agreement on a system as the sine qua non for our agreement to an increase in own resources.

4. On current expenditure, Thorn announced at the Council that the shortfall this year will be 2.5 billion ecus. The Commission are likely to propose that this should be met either by borrowing from the central banks of one or more of the member states, against repayment in 1986, when they hope own resources would be raised; or by member states foregoing the present refunds they receive for the collection of Customs duties and taxes (also against repayment in 1986). Either proposal would require unanimity. We, and I hope other member states, will oppose them. I have asked for work to be set in hand on the implications of the various possible ways in which the Community might try to finance the resultant deficit. I believe, however, that the most likely outcome is that the Community will have to stop reimbursing national governments for EAGFF expenditure in November and December, and then repay them in January (thereby adding to the potential deficit in 1985).

5. In the meantime, negotiations in the Council are stalled and much of the momentum which existed at the time of the European Coucnil has been lost. We need to do what we can to restore that momentum. Own resources cannot be increased without our agreement; that remains our most powerful lever. But I don't believe that it would serve our interests to let matters drag on. If a solution is not found within the span of the French Presidency, it is likely to be more difficult to achieve thereafter. The French will then regard themselves as free agents. We shall lose the Presidency system from which the French and others are trying to resile; and we should be uncovered as to our contribution in 1984.

6. Our objectives must be to seek to ensure:

a) that the Presidency system, which includes many of the features to which we attach importance, is not lost;

b) that Davignon's ideas, which go a long way to meet our needs, are kept alive; and

c) to keep the French actively engaged in the search for a solution

7. While Davignon is anxious to move ahead, he does not have the full backing of the Commission. He knows that he will not be able to get anywhere without French support. It may not now be possible to get much further with the French, or in the Community generally, without aiming for a meeting between you and the President. This is Davignon's view, as well as our own. This should not be a negotiating meeting; nor should it be presented as such. We must get the French off the idea, on which they have fallen back, of short term refunds. We shall need to deal also with their alternative approach, which appears to be to try to set an inadequate rate of compensation in any more systematic solution.

8. Our approach, I suggest should be:

a) to pay tribute to the considerable effort made by Mitterrand in the run-up to the European Council.

b) to make clear that it is our intention to look actively for ways of narrowing the remaining gap.

c) that this can only be done on the basis of moving forward from the position reached at the European Council and the 27 March Council.

The objective should be to get Mitterrand to remit detailed work on a solution and to get back to further contacts between ourselves and Dumas. It would also serve the purpose of getting Davignon back into the act.

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SENT 10 APR 1984

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FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL 9/10 APRIL : FOLLOW-UP TO EUROPEAN COUNCIL

SUMMARY

1. BRUSQUE PRESIDENCY ATTEMPT TO GIVE IMPRESSION OF TOTAL BLOCKAGE CAUSED BY UK UNWILLINGNESS TO MOVE FROM POSITION TAKEN AT EUROPEAN COUNCIL. UK STRESSED NEED FOR COMMISSION TO TAKE THE OPPORTUNITY TO HELP FIND AGREEMENT ON THRESHOLD AND RATE OF COMPENSATION IN ADDITION TO BASE FIGURE. COMMISSION WOULD NOT OPENLY COMMIT ITSELF TO MAKING A PROPOSAL BUT HINTED AT READINESS TO DO SO IF THEY WERE CERTAIN THAT ALL COULD AGREE. PRESIDENCY INTENTIONS TOTALLY UNCLEAR.

DETAIL

2. CHEYSSON (PRESIDENCY) NOTED THAT FINANCE MINISTERS ON 2 APRIL HAD EXPRESSED THE WISH TO DEAL WITH THE BUDGET DISCIPLINE TEXT AND

~~AND EXPRESSED THE WISH TO DEAL WITH THE BUDGET DISCIPLINE TEXT AND~~ ASK FOR AGREEMENT THAT THEY SHOULD NOW BE ASKED TO GIVE THEIR OPINION ON ITS IMPLEMENTATION IN DETAIL. (HE REFERRED SPECIFICALLY TO THE 20 MARCH EUROPEAN COUNCIL TEXT, NOT THE DRAFT COUNCIL RESOLUTION TABLED ON 27 MARCH). ON BUDGETARY IMBALANCES HE NOTED THE INFORMATION SUPPLIED BY THE COMMISSION FOR THE ECOFIN COUNCIL AND THE LATTER'S REQUEST FOR MORE. THAT WAS USEFUL BUT DID NOT CARRY MATTERS FORWARD. NINE DELEGATIONS HAD TRIED TO MAKE SUGGESTIONS ON 27 MARCH, BUT THESE HAD ALL BEEN WITHDRAWN WHEN THEY HAD PROVED UNACCEPTABLE, TAKING MATTERS BACK TO WHERE THEY HAD BEEN ON 20 MARCH. IF THE OTHER DELEGATIONS HAD NOTHING NEW TO SAY, HE SAW NO POINT IN FURTHER DISCUSSION.

3. YOU SAID THAT IT HAD BEEN CLEARED AT THE END OF THE 27 MARCH MEETING THAT A CRITICAL, DIFFICULT POINT HAD BEEN REACHED. SO THE COMMISSION HAD BEEN GIVEN A MANDATE TO SEE IF THEY COULD BRIDGE THE GAP. YOU HOPED THAT THEY WOULD HAVE BEEN ABLE TO MAKE A PROPOSAL, BUT IF THEY WERE NOT YET IN A POSITION TO DO SO YOU THOUGHT IT WOULD BE UNHELPFUL TO INTERRUPT THEIR CONSIDERATION BY A FURTHER SUBSTANTIVE DISCUSSION. THIS SHOULD WAIT UNTIL THE COMMISSION WERE ABLE TO GO FORWARD. THORN (COMMISSION) SAID THAT THE COMMISSION HAD NO PROPOSAL TO MAKE AND INSISTED THAT THE COMMISSION HAD BEEN GIVEN NO MANDATE: INDEED GENSCHER HAD SAID THAT IT COULD NOT HAVE ONE UNTIL AFTER THE ECOFIN COUNCIL. BUT HE ARGUED THAT ON 27 MARCH EVERYONE HAD AGREED ON COMPENSATION FOR THE UK IN THE FIRST YEAR OF 1,000 MECU AND THAT THE SYSTEM SHOULD BE INTRODUCED IN 1985. ECOFIN HAD LOOKED AT THE EXPLANATORY FIGURES, NOW IT WAS A MATTER OF AGREEING ON A BASE FIGURE. THE COMMISSION WOULD ONLY MAKE A PROPOSAL IF IT WAS CERTAIN THAT ALL COULD AGREE ON THE FIGURE. A COMPLICATION WAS THAT HE HAD FORMED THE IMPRESSION FROM HIS CONTACTS IN LONDON EARLIER IN THE DAY THAT MITTERRAND WAS ALSO IN CONTACT WITH CERTAIN PARTIES.

4. CHEYSSON AGREED THAT THE COMMISSION HAD RECEIVED NO MANDATE: INDEED THORN HAD REMINDED THE COUNCIL THAT THE COMMISSION DID NOT NEED A MANDATE. HE THEN ARGUED THAT THE ONLY VALID PROPOSITION OF THE 9 DELEGATIONS REMAINING ON THE TABLE WAS KOHL'S IDEA OF 5 YEARS AT 1000 DURING WHICH THE FRG WOULD PAY TWO THIRDS OF ITS CONTRIBUTION TO BE FOLLOWED BY THE INTRODUCTION OF THE SYSTEM WITH THE FRG MAKING ITS FULL CONTRIBUTION. WHEN THE COMMISSION'S LATER PROPOSAL OF 2 YEARS AT 1,000 FOLLOWED BY THE SYSTEM HAD BEEN WITHDRAWN ON 20 MARCH, THE THREE DELEGATIONS WHICH HAD SUPPORTED IT HAD REVERTED TO THEIR POSITION OF 850 MECU. ON 27 MARCH THE ONLY AGREEMENT HAD BEEN ON 1,000 MECU FOR ONE YEAR. THE UK HAD MERELY REPEATED ITS POSITION OF 1,000 IN THE FIRST YEAR PLUS 1250 AS THE BASE FIGURE FOR THE SYSTEM, THOUGH IT WAS NOT CLEAR WHETHER THAT 1250 WAS THE ACTUAL FIGURE FOR 1985 OR THE 1983 BASIS ON WHICH THE 1983 FIGURE WOULD BE ESTABLISHED.

5. YOU SAID THAT ON 27 MARCH YOU HAD SUGGESTED THAT THE COMMISSION MIGHT BE ABLE TO PLAY A ROLE IN FINDING A COMPROMISE: THIS WAS MORE AN OPPORTUNITY THAN A MANDATE TO ACT AS HONEST BROKER. ON THE BASIS OF THE SYSTEM NOW ON THE TABLE, IT WAS NECESSARY TO SETTLE NOT JUST THE NOTIONAL 1983 FIGURE BUT ALSO THE THRESHOLD AND THE RATE OF COMPENSATION ABOVE THE THRESHOLD. YOU WERE READY TO LISTEN TO ANYTHING THE COMMISSION MIGHT COME UP WITH: WERE THEY WILLING TO

~~THE NOTIONAL 1983 FIGURE BUT ALSO THE THRESHOLD AND THE RATE OF COMPENSATION ABOVE THE THRESHOLD. YOU WERE READY TO LISTEN TO ANYTHING THE COMMISSION MIGHT COME UP WITH: WERE THEY WILLING TO~~ HELP? THORN SAID THAT THE COMMISSION POSITION WAS THAT, ON THE BASIS OF PAGES 11 AND 12 OF THE EUROPEAN COUNCIL DRAFT CONCLUSIONS, THEY WOULD SEE WHETHER A MOMENT OCCURRED WHEN THEY COULD ADVANCE A FIGURE WHICH MIGHT HELP TO RESOLVE THE ISSUE. THE COMMISSION HAD NO OBLIGATION TO DO SO BUT NEITHER COULD IT BE STOPPED FROM DOING SO.

6. GENSCHER AGREED WITH CHEYSSON THAT, IF THE UK COULD NOT MOVE, DISCUSSION WAS A WASTE OF TIME. HE THOUGHT THAT THE COMMISSION SHOULD PRODUCE A FURTHER INFORMATION REQUEST AT THE ECOFIN COUNCIL, PARTICULARLY AS TO HOW THE SYSTEM WOULD AFFECT THE FRG. FINANCE MINISTERS SHOULD WORK NOT ONLY ON BUDGETARY DISCIPLINE BUT ALSO ON BUDGETARY IMBALANCES ONCE FOREIGN MINISTERS HAD DECIDED THE BASE FIGURE, AS KOHL HAD REQUESTED AT THE EUROPEAN COUNCIL. CHEYSSON SEEMED TO ACCEPT THIS, BUT YOU POINTED OUT THAT THE ECOFIN COUNCIL HAD EXPRESSLY DISAVOWED ANY NEGOTIATING ROLE. IT WOULD NOT BE ENOUGH FOR THE FOREIGN AFFAIRS COUNCIL TO HAVE AGREED THE BASE FIGURE ALONE. THERE WAS A REAL RISK OF IMMEDIATE DISAGREEMENT THEREAFTER ON THE THRESHOLD AND THE RATE OF COMPENSATION. THAT WAS WHY YOU HOPED THE COMMISSION COULD HELP.

7. DE KEERSMAEKER (BELGIUM) AGREED THAT THE ECOFIN COUNCIL SHOULD TAKE ON WORK ON THE BUDGETARY DISCIPLINE CHAPTER BUT RECALLED THAT BELGIUM HAD DIFFICULTIES WITH THE PRESENT TEXT AND COULD NOT BE ASSUMED TO HAVE ACCEPTED IT. HE DOUBTED WHETHER IT WAS RIGHT TO DIVIDE UP WORK ON WHAT HAD HITHERTO BEEN A PACKAGE. CHEYSSON DENIED THAT THIS WAS HIS INTENTION. DECISIONS WOULD BE TAKEN BY THE EUROPEAN COUNCIL OR, BYT DELEGATION, BY THE FOREIGN AFFAIRS COUNCIL. BUT THE ECOFIN COUNCIL COULD COMPLETE ITS ADVICE ON TECHNICAL ASPECTS BOTH ON BUDGETARY DISCIPLINE, TAKING ACCOUNT OF THE BELGIAN POINT, AND ON BUDGETARY IMBALANCES, FOR INSTANCE ON THE RELATIONSHIP BETWEEN THE THRESHOLD AND THE RATE OF COMPENSATION AND THE DEFINITION OF VAT SHARE. WITH THAT HE ABRUPTLY BROUGHT DISCUSSION TO AN END.

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