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SUBJECT

NOTE OF A DISCUSSION AT A WORKING LUNCH BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE FRENCH REPUBLIC AT THE ELYSEE PALACE AT 1300 HOURS ON FRIDAY 4 MAY

Present:

The Prime Minister	President Mitterrand
The Foreign Secretary	Monsieur Dumas
Mr. F.E.R. Butler	Monsieur Attali

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European Community Budget

President Mitterrand suggested that the working lunch should start by carrying forward the discussion which he had started with the Prime Minister about the European Community Budget. As he had explained to the Prime Minister, his impression was that the Community partners were alarmed by the combined effect of the proposed system and the starting figure. He said that both the Germans and the Italians shared these anxieties. It was not so much a matter of principle but a practical matter.

The Prime Minister said that her impression from her discussion with Chancellor Kohl was that he accepted the approach of fixing a reference figure for the new system on the basis of 1983. It was then a question of settling the details of the system in terms of thresholds and percentages. She had come down from a base figure of 1500 mecus to 1322 mecus. She had subsequently had advice that if she moved to 1250 mecus the Germans would accept it. This had proved to be unfounded. But, having made this improvement and having made a concession by accepting the VAT/Expenditure gap, she now had very little room left for manoeuvre. She could certainly not make any further move unless she knew that it would clinch a settlement.

President Mitterrand commented that the figures being discussed as a basic reference figure had not been produced by chance. Most people felt that the basis for the calculation of the refunds should be the gap less agricultural levies and customs duties. On this definition the gap worked out at 1550 mecus, of which two-thirds was between 1000 and 1050 mecus.

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The Prime Minister commented that the British Government believed that the right gap was their net contribution in terms of the overall difference between the resources which they put into the Community and the resources which they received. Under the system agreed in 1970, there had not been the distinction between VAT and import duties which she was now accepting through her agreement to the VAT/Expenditure gap. Having made this concession, she was mortified that her partners had not made similar concessions. President Mitterrand commented that the Prime Minister was a victim of her own reputation as a tough negotiator.

Monsieur Dumas commented that the other Members of the Community had made a major concession by agreeing that there should be a system at all. The Prime Minister responded that this was not as great a concession as agreeing to an agreement in own resources which would be permanent. President Mitterrand replied that an increase in own resources was not an advantage to the French Government, since it would cost them money: it was the Commission which was asking for an increase in own resources.

The Foreign Secretary pointed out that, once the system was in place after the transitional year, Germany would meet its full share of the British refund. Monsieur Dumas said that a single transitional year had not been agreed. There were two formal proposals. One was the proposal by Chancellor Kohl for a transition of up to 5 years and the second was the proposal by M. Thorn and Mr Lubbers for a two-year transition, followed by the estimate on the basis of a refund of 1000 mecus based on 1983.

The Foreign Secretary commented that these proposals would move backwards rather than forwards. The British impression had been that at the end of the Brussels discussion an arrangement was being discussed for a single transitional year followed by the system; and that the point at issue was then the figure for the first year. The Prime Minister added that, unless an agreement could be reached on these lines, she would not be able to secure the agreement of the British Parliament to an increase in own resources. Monsieur Dumas replied that without an increase in own resources there could be no enlargement.

The Prime Minister said that there was a strong case for proceeding with enlargement on time. In the absence of an increase in own resources, Member countries could meet agricultural expenditure from their domestic budgets. In any case, it would be important to avoid unlimited guarantees for Mediterranean products. For example, it was ridiculous that tobacco should be supported by intervention.

/ President Mitterrand

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President Mitterrand agreed. Quotas would also have to be introduced for Spanish wine production. On the general budget problem, it would be necessary to secure the agreement of the Ten, and this would not be easy.

The Prime Minister commented that, if others had an unfair arrangement like that of the British, they would certainly agree to a reform of the system. President Mitterrand replied that the overall benefits of Membership had to be taken into account, and not the budget in isolation.

The Prime Minister said that this was precisely Britain's case. Britain was a wholehearted and generous Member of the Community. We had accepted the biggest reduction in steel capacity; we had accepted a large cut in milk production; the small size of our agriculture sector meant that we benefited from the Common Agricultural Policy less than other Members; we were large net importers of manufactured goods from other Members of the Community; we provided two-thirds of the fishing waters and took only one-third the fish; and in service industries, where Britain was strong, no common market had been established despite the fact that it was mentioned in the Treaty of Rome before the Common Agricultural Policy. President Mitterrand took note of the Prime Minister's points. He recognised that the benefits of Community policies depended upon the weight which particular sectors had in the economies of each Member. This was a matter of swings and roundabouts. But he would be prepared to say to Chancellor Kohl that progress must be made towards establishing a common market on services.

The Foreign Secretary added that Britain regarded herself as an integral member of the Community and our absence was unthinkable. In addressing the Budget problem, we were entitled to ask our partners to take account of the factors mentioned by the Prime Minister, which many people in Britain regarded as justifying Britain in paying no financial contributions at all. The British Government were prepared to make a reasonable net contribution but it was difficult to go on defending the present arrangements to the British people.

In reply to a question from the Prime Minister about methods of making further progress, President Mitterrand said he would telephone Chancellor Kohl at the beginning of the following week to arrange a date for a meeting at the end of that week. In the meantime he would ask Monsieur Dumas to make contact with the Foreign Secretary and with the German Government to see if any further progress could be made.

/ D-Day

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D-Day Celebrations

The Prime Minister took the opportunity of saying that she understood that, after some difficulties, there was now a programme for The Queen's visit which met the wishes of the French. She understood that this involved The Queen arriving at Caen in the Royal Yacht, carrying out some touristic visits in Caen in the morning, joining President Mitterrand and President Reagan at Utah Beach in the afternoon and visiting Arromanches in the early evening. The Prime Minister thought that, on the basis of this programme, the Anniversary should be a splendid occasion.

Relations with Libya

President Mitterrand said that he thought that there would be advantage if Foreign Ministers were to discuss relations with Libya. He added that no date had been arranged for a visit by Monsieur Cheysson to Libya. The Prime Minister welcomed what the President had said. She thought that a visit by Monsieur Cheysson to Libya in the aftermath of the recent incident in London might be misunderstood.

F.R.B.

4 May 1984

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10 DOWNING STREET

File SSS
cc: Sir P. Craddock
cc Sir M Franklin
MAFF

From the Principal Private Secretary

4 May 1984

The Prime Minister's talks with President Mitterrand

I enclose notes of the tete-a-tete meeting between the Prime Minister and President Mitterrand and of the working lunch which was also attended by the Foreign Secretary and Monsieur Dumas.

I should be grateful if you and other recipients would confine access to these records to those who have an operational need to see them.

I am copying this letter and the enclosures to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

FCRB

Len Appleyard, Esq.,
Foreign and Commonwealth Secretary

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