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NOTE FOR THE RECORD

EUROPEAN COMMUNITY: REFORM OF THE FINANCING SYSTEM AND
UNITED KINGDOM REFUNDS

I attended the dinner and discussion between the Foreign and Commonwealth Secretary and the French Minister responsible for European affairs, Monsieur Dumas, in Brussels last night. Monsieur Legras was also present.

2. Although the discussion was friendly, the substance of Monsieur Dumas' comments on the settlement of a reform of the Community's financing and United Kingdom refunds was negative. On this basis it could be concluded that the French Government did not like the system proposed at the last European Council in their own Presidency paper and would do little or nothing to achieve it in the period up to and at the next European Council.

3. The main points discussed were:

(i) Timing of future discussions. The Foreign and Commonwealth Secretary reiterated that, subject to movement by all member states to a satisfactory compromise, the United Kingdom had seen some advantages for the Community in a settlement of this issue before the European election campaign got under way. If this were not possible, it would still be necessary to carry forward some preparatory work, so that the discussion at the next European Council was properly prepared. He hoped that the Presidency would do this and, in particular, would look at the possible figures for the threshold and rate of compensation, which would need to be settled anyway within the system. We would be ready to discuss these figures, on the assumption that they would be consistent with a compromise on the disputed notional figure for the United Kingdom refund

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within the system (1000-1250 million ecu on 1983 figures). Monsieur Dumas said that the disagreement was so wide that he did not see any realistic basis for such discussions and he took the view that there was little which could be helpfully tackled now. He was pessimistic; he did not think that an agreement could be reached before the European election campaign and member states might have little incentive to reach such an agreement on the system afterwards. The French President, Monsieur Mitterrand, would be making visits to all the principal capitals again before the next European Council.

The Foreign and Commonwealth Secretary and I made clear that we did not share Monsieur Dumas' pessimistic assumption. There were a large number of member states which recognised that a settlement could be reached and were pressing for other elements in the package; in particular, an agreement to increase the Community's own resources. It was apparent that the Community's finances were in serious difficulty which would increase if there were no budget settlement. Many member states had a lot to lose if the failure to increase Community resources forced them towards a greater share of national financing. French farmers were expensive.

(ii) The British case. The Foreign and Commonwealth Secretary stressed that the contribution which the United Kingdom was making to the Community, apart from the strictly budgetary contribution, was very large indeed - the huge market for Community manufactured and agricultural products, defence commitments, fishing resources etc. In these circumstances it was essential that any budget settlement could be genuinely shown to be defensible and fair. The Community had been fairly close to such a settlement at the last European Council. Monsieur Dumas and Monsieur Legras said that the British position on the figures, together with the nature of the system in the Presidency document, would give rise to a very high rate of compensation for the United Kingdom (Monsieur Legras suggested 80-90%) and on reflection this was not possible; it would mean

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that the United Kingdom's contribution to enlargement was minimal. The Foreign and Commonwealth Secretary pointed out that even under the proposed system the United Kingdom would remain for the foreseeable future the second largest net contributor and would, of course, be making a very large contribution to an enlarged Community. The system certainly did not insulate the United Kingdom from the effects of enlargement.

There was a brief discussion of the date at which a new system might come into effect. In recapitulating the present position, Monsieur Dumas referred to the proposal for 1 ad hoc year followed by the system. It was only when prompted by Monsieur Legras that he corrected himself to 1 or more ad hoc years. The Foreign and Commonwealth Secretary made quite clear that there was no logic in the suggestion that there should be more than 1 ad hoc year, since within a satisfactory package new own resources would be available in 1986 to finance the 1985 refund. We were not prepared to accept an arrangement with more than 1 ad hoc year.

(iii) Situation if no agreement on a system. Monsieur Dumas said that he had been giving thought to the situation if there were no agreement on a system at Fontainebleau. He suggested tentatively that there might be agreement on a refund for 1984 of 1000 million ecu and all other problems would be left over. The Foreign and Commonwealth Secretary said that he did not think that the Presidency should look for solutions other than an agreement on the whole package.

(iv) Handling of the European Council of 25-26 June. Since Monsieur Dumas had suggested the possibility of the European Council on 25-26 June not reaching agreement on the reform of the Community's financing system, we asked how other issues might be handled by the French Presidency. It was obvious that in the absence of a long term agreement on the reform of the

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Community's finances, there could be no increase in the Community's own resources (the 1% VAT ceiling). Monsieur Dumas said that of course other elements of the package would fall.

4. There was no substantive discussion of points outside the post-Stuttgart package. Monsieur Dumas volunteered that he would like to have a further meeting or discussion with the Foreign and Commonwealth Secretary before too long. He also thanked the Foreign and Commonwealth Secretary for the position which the United Kingdom had taken in relation to the timing of the reform of the *acquis communautaire* for fruit and vegetables in the prospect of an enlarged Community.

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15 May 1984

cc: Mr Bone)
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