

FROM: P S FAIRWEATHER  
DATE: 6 JUNE 1984

MR RENYICK  
PRIVATE SECRETARY

cc: PS/Mr Rifkind  
PS/PUS  
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*(WED)*  
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EC HEADS OF MISSION CONFERENCE, 5 JUNE 1984

1. We shall be circulating the full record of the Conference within the next day or two. Meanwhile, however, the Secretary of State and Mr Rifkind may welcome a resumé of the main points which emerged.

Prospects for Fontainebleau

2. Our partners are thoroughly sick of the budget problem and are becoming increasingly averse to dealing with it. This sentiment has not however, weakened a fairly general resolve to stick to the common position of the Nine so long as there is no move to shift it. Such a move would probably have to come from the Presidency. There is therefore no great optimism that the problem of budgetary imbalances will be settled at Fontainebleau. The French are pursuing alternative strategies: to work for an agreement if it is to be had at an acceptable cost; or, if this is not on the cards, to ensure that a breakdown takes place in conditions which maintain the solidarity of the Nine and the isolation of the UK. In this situation the UK would be blamed for all the difficulties of the Community, including the suspension of enlargement negotiations, if, as some Member States are suggesting, this was the consequence of a failure to agree on the budget.

3. It is vital politically for the German Government that the FRG should not be the only Member State without a limit on its budgetary contribution. However, reliefs for the FRG would not necessarily have to be operative in year one of the system.

4. The Germans may be working on ideas for something simpler than the present system but it is not clear whether they will put them forward.

5. The UK budget problem is not the only issue which could lead to deadlock at Fontainebleau. Others include the question of budgetary reliefs for Germany and the rate at which Germany would contribute to our refunds; and IMPs for Greece and perhaps Italy. It was agreed that we need early intelligence from posts on other Member States' shopping lists for Fontainebleau.

6. Despite the Prime Minister's meetings with Chancellor Kohl and President Mitterrand, interviews and numerous diplomatic conversations, some of our partners may still not appreciate that we are ready to make a further move on the figures which would set the parameters of the system as part of a final move, in which our partners would also join, to reach a settlement. We shall emphasise this point again in the next week or two.

#### After Fontainebleau

7. Heads of Mission all agreed that our partners are refusing to contemplate the problems which will arise if there is no settlement at Fontainebleau. This refusal must increase the risk of a failure at Fontainebleau. Few Member States seem to have considered their attitude to the Commission's proposals for a deficit budget in 1985 on which the Council machinery will start work next week. It remains important that we should ensure that our partners are left in no doubt of the position we shall take on the 1984 budget overrun, the deficit budget for 1985 and new own resources if Fontainebleau is not a success.

8. There was some discussion of the likely reaction of the Irish Presidency to a failure at Fontainebleau. Something like a consensus emerged that, while the Irish would probably not wish to call a special European Council as early as July, they would wish to make an effort to solve the Community's problems before the December European Council, which would be leaving matters perilously late.

President Mitterrand's Speech

9. President Mitterrand struck a responsive note in his speech to the European Parliament on 24 May. In particular it had been music to the ears of Chancellor Kohl. Most of our partners expect President Mitterrand's ideas for the relaunch of the Community to be considered adequately at Fontainebleau. The chances of a budget settlement might be materially affected by our attitude on that occasion. (It was suggested that, though our partners fully realise that we will remain the second largest net contributor to the Community budget, they are unwilling to make further concessions to us without some assurance that, once the budget problem is out of the way, the UK will join wholeheartedly in the effort to relaunch the Community.) This is the significance of the paper for Chancellor Kohl on the future of the Community. The ideas it contains will have to be deployed both at Fontainebleau and with our partners bilaterally. They, and particularly the Germans, are now deeply sceptical about the extent of the UK's commitment to the development of the Community. We need urgently to work up the ideas in the paper for Kohl.

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