

Prime Minister

C.D.P.

19/6

PM/84/100PRIME MINISTER
European Negotiations

1. During the Foreign Affairs Council in Luxembourg, I took the opportunity to talk to all other Community Foreign Ministers or their deputies bilaterally. I also had a further word with Thorn. In all these meetings I took the line that the way to complete the negotiation was to establish the notional figure for 1983 on the basis of the Presidency text. We had some margin for manoeuvre, but not much. Movement on our side would depend on movement by the other Member States.

2. These meetings did not advance matters. Other member states were inclined to sit on their hands and hope that we would work something out with the French. The smaller ones no doubt would follow the French and Germans if they moved. They all took the line that they had made a major concession in agreeing to the system at all. They were very worried as to how it would operate, both in terms of the size of the refunds it would yield us, and the future implications for the German contribution. Andreotti made a particular fuss about this and was reluctant to contemplate any system. Genscher was unyielding, simply repeating ad nauseam that the Germans had made a major move in agreeing to 1000 mecu in the system. He did say that the Germans wanted the system and would contribute to our refunds on that basis. But the

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Germans want refunds themselves. The German problem is going to complicate our task at Fontainebleau.

3. I made clear that if a solution were not found on budget imbalances, we did not see how the problem of the budget overrun could be dealt with. The Community would then face increasing difficulties; there could be no effective re-launch etc.

4. The discussions with Dumas were more positive, but I am not at all sure that the French will make a proposal. I insisted on the importance we attached to maintenance of the system. After a considerable song and dance about the difficulties of advancing the negotiation, he offered a 65% or two-thirds return on the VAT share/expenditure share gap i.e. 1081 mecu on the 1983 figures. I made clear that this would not yield an adequate rate of return. I said that the right way to complete the negotiation was to set the notional figure and the threshold. A straightforward percentage return had fewer attractions for us; and the compensation rate Dumas was mentioning was inadequate.

5. In further discussion we talked through the possibility of setting the notional figure. Dumas said that 1125 mecu with a 250 mecu threshold would yield a rate of compensation at over 80%. This was impossible to defend in France. I pointed out that the real rate of compensation would be very much lower, due to the exclusion of 'excess' duties and levies and growth of the threshold, which would grow in line with the increase in our GDP. I did not wish to reopen the theological argument about duties and levies. We were prepared to base a solution on the VAT share/expenditure share gap. But the solution would still have to be justified in Britain in relation to the returns it yielded on the whole gap.



6. The conclusion I draw from all this is that Dumas has been trying to find a solution, but is facing difficulties in Paris as well as with other member states; and the setback Mitterrand has just suffered in the European elections may not help. The French have been finding great difficulty in dealing with the German problem.

7. Davignon's ideas, which have, in any case, been put in different forms to different people, no longer command serious attention. The two routes by which a result might be achieved at Fontainebleau are:

(a) setting the notional figure at, say, 1100 or 1125 mecu, with an appropriate threshold. There will be very great difficulty in getting others to that point. But we should go on pressing the advantages of that course. I see no prospect of getting a higher notional figure.

(b) The French may revert to the idea of a straightforward percentage return. This might attract quite general support. It would be for the French or others to deal with the Germans on that basis, and I am not clear how they would do so. To be worthy of any consideration, such a correction would have to be systematic, i.e. embodied in and co-terminous with the own resources decision. The bulk of the Presidency text would need to be preserved.

8. The reason Dumas and others are interested in this route is that it enables them to pretend that there has been some sort of escape from the 1983 figures. This has attractions for other Member States. They think a more

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direct solution will be represented as a capitulation to us. All the other Member States are refusing to agree to the high nominal percentage refunds which would result from the application of the system. In fact, as I repeatedly reminded Dumas, the results would still have to be read back on to the 1983 figures. I do not exclude entirely that we could get acceptable results by abolishing the threshold.

9. A point we shall have to watch is that if it is not possible to complete agreement on the basis of the Presidency text at Fontainebleau, that text will be withdrawn. There would still be no question of our agreeing to an increase in own resources except on the basis of a systematic correction of our contribution. Both we and other member states have an obvious interest in aiming for agreement - though not at any price - at Fontainebleau. I have no doubt that the negotiations will become more difficult thereafter, not least because the French would feel free to - and would - go back to square one.

10. There will also be further attempts to press again for a further ad hoc year in 1985. I have already dealt very firmly with these, given the anticipated size of our net contribution in that year. I also insisted that the system must operate on the payments basis.

11. A percentage return would not protect us as fully at the margin against future increases in Community expenditure, though that would be partially offset by the disappearance of the threshold and the built-in increase in our contribution which would result from it. Whether the French make a further effort to resolve the matter will, I think, depend on the course of the discussion at Fontainebleau. We should make clear that we are ready to

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make the effort to do so. We should continue to press for the negotiations to be completed by setting the notional figure, with an appropriate threshold, for 1983. Failing that, we should still aim to reach agreement on the figure even if other elements, including the means of dealing with the German problem, have to be left to be settled later. Our attitude should depend on whether we could get a sufficiently high overall return by this or other means.

12. I am sending copies of this minute to the Chancellor of the Exchequer and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

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