

Euro Council

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INFO IMMEDIATE UKREP BRUSSELS PARIS
INFO ROUTINE ATHENS EMBASSY BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG
ROME THE HAGUE

EC COUNCIL AT FONTAINEBLEAU: THE GERMAN APPROACH

SUMMARY

1. PRESSURES AND INCENTIVES FOR KOHL TO SETTLE, BUT NOT AT ANY PRICE. IRRITATION OVER UK 'INTRANSIGENCE' NOT A DECISIVE FACTOR. BRUSSELS EXPERIENCE WILL MAKE HIM CAUTIOUS. UNLIKELY TO TAKE ANY EARLY INITIATIVES ON BUDGET ISSUE: BUT READY TO THROW WEIGHT BEHIND ANY MOVE TOWARDS CONSENSUS. AWARE THAT MUCH AT STAKE FOR EUROPE. READY TO WORK ON BRUSSELS DRAFT CONCLUSIONS, BUT OPEN TO OTHER APPROACHES. DEMANDEUR ON TWO, POSSIBLY THREE, ISSUES. SHOULD IMPLY FLEXIBLE AND ACCOMMODATING APPROACH. MAY BE UNCLEAR OVER PRESIDENCY'S GAME PLAN. BY CONTRAST, NOW CLEAR ABOUT UK REQUIREMENTS AND IDEAS FOR FUTURE DEVELOPMENT OF COMMUNITY. GROUNDS FOR HOPE THAT GERMAN CONTRIBUTION TO NEGOTIATION WILL BE MORE HELPFUL THAN AT BRUSSELS.

DETAIL

2. KOHL SEES THE RESULT OF THE EUROPEAN ELECTION AS AN EXPRESSION OF DISAPPOINTMENT AND IMPATIENCE WITH EUROPE. TURN OUT IN THE FRG WAS DOWN 10 PER CENT ON LAST TIME, THE BIGGEST DROP IN EUROPE. KOHL WILL WANT THE SUMMIT TO HELP OVERCOME THIS DISAPPOINTMENT. KOHL'S PERSONAL CONCERN TO SEE EUROPE PROGRESS, HIS DESIRE TO SEE HIS STUTTGART PACKAGE FINALLY AGREED AND HIS NEED, IN VIEW OF RECENT DIFFICULTIES - THE PROBLEMS OF THE FDP, LAMBSDORFF AND STRIKES (BONN TELNOS 551, 595 AND 612) - TO INVOLVE HIS GOVERNMENT IN A SUCCESSFUL ENTERPRISE, ADD UP TO COMBINATION OF INCENTIVES AND PRESSURES THAT WILL ENCOURAGE KOHL TO WORK HARD FOR A SUCCESS. HE HAS SAID MOVEMENT BY ALL IS NECESSARY AND THAT EUROPE MUST GO FORWARD STEP BY STEP. THESE FACTORS OUTWEIGH ANY IRRITATION AT UK 'INTRANSIGENCE'. BUT HE WILL NOT SETTLE AT ANY PRICE.

3. SCHOOLED BY HIS EXPERIENCE AT BRUSSELS, I WOULD NOT EXPECT KOHL TO EXPOSE HIMSELF BY TAKING FURTHER INITIATIVES AT FONTAINEBLEAU, AT ANY RATE EARLY ON. HE WILL BE CAUTIOUS AND, AS FAR AS POSSIBLE, AVOID PLACING HIMSELF IN THE POSITION OF DEMANDEUR (SEE PARA 5 BELOW). HE WILL WANT TO KEEP IN LINE WITH THE PRESIDENCY AND WILL NO DOUBT BE READY TO THROW THE WEIGHT OF THE FEDERAL REPUBLIC BEHIND ANY APPROACH THAT HAS THE POTENTIAL OF GATHERING A CONSENSUS. THE STATUS OF THE VARIOUS IDEAS GERMAN

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OFFICIALS.

OFFICIALS HAVE BEEN WORKING UP IS UNCLEAR. IT SEEMS UNLIKELY THAT THEY WANT TO PROPOSE A NEW 'PLAN'. THAT SAID, IF DISCUSSION TAKES AN UNPREDICTABLE OR DIFFICULT TURN KOHL MIGHT WELL ADOPT A MORE ACTIVE ROLE.

4. GERMAN OFFICIALS ARE APPROACHING THE SUMMIT IN SOBER BUT NOT DESPAIRING MOOD. THEY CONSIDER THAT MORE IS AT STAKE THIS TIME THAN EVER BEFORE AND THAT FAILURE COULD LEAVE US WITH A DIFFERENT COMMUNITY. BUT ALTHOUGH THE STAKES ARE HIGH AND GERMAN OFFICIALS SEEM IN THE DARK ABOUT PRESIDENCY INTENTIONS, REMARKABLY THEY ARE NOT EXHIBITING THE SIGNS OF ACUTE NERVOUSNESS THAT THIS COMBINATION MIGHT BE EXPECTED TO PRODUCE. THEY WILL BRIEF KOHL TO ARGUE FOR AGREEMENT ON THE SYSTEM OUTLINED IN THE DRAFT PRESIDENCY CONCLUSIONS AT BRUSSELS AND THAT THE BEST APPROACH IS TO DISCUSS PARAMETERS RATHER THAN THE STARTING FIGURE. ASSUMING A RESUMPTION OF THE NEGOTIATIONS ON THIS BASIS, THE GERMANS WOULD, AS BEFORE, INSIST ON BEING LEFT OFF PAYING ONE-THIRD OF THEIR SHARE OF REFUNDS TO THE UK FOR THE LUMP SUM YEAR. FOR THE SYSTEM, WHICH THEY WOULD BE HAPPY TO SEE ENTER INTO FORCE WITH EFFECT FROM 1985, THEY WOULD, I AM CONFIDENT, BE READY TO MOVE ABOVE 1000 MECU FOR THE STARTING FIGURE. I DOUBT THAT EFFORTS TO CLOSE THE 250 MECU GAP WOULD FINDER ON GERMAN RESISTANCE ALONE. AS FAR AS GERMAN REQUIREMENTS FOR COMPENSATION/PROTECTION GO, EVEN THE FINANCE MINISTRY ARE NO LONGER INSISTING ON IMMEDIATE COMPENSATION - A QUESTION DESCRIBED AS OF SECOND ORDER IMPORTANCE - BUT THEY WANT A MECHANISM THAT PROTECTS THEM AT SOME POINT IN THE FUTURE. WHETHER AT THAT POINT THEY WOULD WANT COMPENSATION, OR A STOP ON THEIR CONTRIBUTION IS NOT CLEAR.

5. BUT GERMAN OFFICIALS DO NOT HAVE MUCH CONFIDENCE THAT AGREEMENT CAN BE REACHED ON THE BRUSSELS DRAFT CONCLUSIONS AND ARE IN CONSEQUENCE READY (PERHAPS TOO READY) TO CONTEMPLATE NEGOTIATING ON SOME OF THE PRESIDENCY'S IDEAS (SEE BONN TELNO 610). IN ADDITION TO THE MODEL DESCRIBED IN TUR OFFICIALS HERE HAVE ALSO SPOKEN OF COMPENSATION FOR BRITAIN AT A FIXED PERCENTAGE OF THE VAT EXPENDITURE GAP. THIS WOULD, THEY SAY, HAVE THE MERIT OF SIMPLICITY, AN ASSET FOR NEGOTIATION AT HEADS OF GOVERNMENT LEVEL. IT WOULD, HOWEVER, RAISE THE QUESTION OF REDUCING THE GERMAN CONTRIBUTION TO UK REFUNDS. HAVING PROPOSED A LUMP SUM APPROACH AT BRUSSELS, KOHL, WE ARE TOLD, WOULD FIND IT DIFFICULT TO ARGUE AGAINST ONE AT FONTAINEBLEAU. AFTER ALL HIS PROPOSAL IS STILL FORMALLY ON THE TABLE. GIVEN THE OPPOSITION ELSEWHERE TO A SYSTEM, GERMAN OFFICIALS ARGUE THAT AN APPROACH THAT WAS BASED ON 1000 MECU, SUPPLEMENTED IN ANY NUMBER OF WAYS, WOULD BE POLITICALLY ATTRACTIVE. THE 1000 MECU FIGURE WOULD RETAIN SOME OF THE CHARACTER OF A LUMP SUM SETTLEMENT. GERMAN OFFICIALS CLAIM THAT THE FRENCH ARE ADAMANT THAT RELIEF FOR THE UK WOULD HAVE TO BE TIME BOUND. THEY SPECULATE THAT THE FRENCH WILL ONLY AGREE TO A SYSTEM WHEN FRANCE NEEDS ONE, IE WHEN THE 1.4 PER CENT VAT CEILING RUNS OUT.

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6. THE GERMANS ARE DEMANDEUR ON TWO, AND POSSIBLY THREE, MATTERS - APPROVAL FOR THE CONTROVERSIAL NATIONAL AIDS TO FARMERS, SOME FORM OF PROTECTION WITHIN THE BUDGET AND, POSSIBLY, OVER THE QUESTION OF THE SUCCESSION TO THORN. ALTHOUGH THEY SAY BIEDENKOPF REMAINS A SERIOUS CANDIDATE WE HAVE NO CONFIRMATION THAT HIS NAME WILL GO FORWARD. THESE FACTORS COUPLED WITH GERMAN KEENNESS ON A SETTLEMENT SHOULD MEAN THAT THEY APPROACH THE NEGOTIATION IN AN ACCOMMODATING AND FLEXIBLE WAY.

7. THERE ARE POSITIVE FACTORS. WE HAVE ALREADY INDICATED OUR READINESS TO SHOW FLEXIBILITY. WE HAVE ALSO OUTLINED OUR APPROACH TO THE FUTURE DEVELOPMENT OF THE COMMUNITY. WE KNOW THAT THAT HAS BEEN WELL RECEIVED. THE GERMANS HAVE, I THINK, A FAIRLY SHREWD IDEA OF THE KIND OF FIGURES WE NEED, AND THE PASSAGE OF TIME MAY HAVE HELPED THEM TO GET USED TO WHAT IT WILL MEAN FOR THEM. BY CONTRAST IT IS NOT CLEAR WHETHER THEY ARE FULLY PRIVY TO THE PRESIDENCY'S WISHES AND INTENTIONS: OFFICIALS, WITH APPARENT SINCERITY, SAY THEY ARE QUITE UNCERTAIN WHAT THE PRESIDENCY'S GAME PLAN IS. IN CONTACT WITH OFFICIALS OVER THE PAST WEEK, WE HAVE FOUND NO DISPOSITION TO ATTACK THE BRITISH. MOREOVER, PRESS COMMENT HAS COOLED OFF. IN YESTERDAY'S PRESS (BONN TELNO 618) THERE WAS A POSITIVE TONE IN THE REPORTING OF THE LUXEMBOURG COUNCIL.

8. THE GERMANS WILL NOT SETTLE AT ANY PRICE BUT I JUDGE THAT THEY ARE APPROACHING FONTAINEBLEAU IN REALISTIC MOOD, ARE VERY KEEN ON A SUCCESS THAT RIDES THE COMMUNITY OF THE BUDGETARY INCUBUS AND THUS FREES IT TO MAKE PROGRESS, EVEN IF THAT PROGRESS CANNOT BE AS SPECTACULAR AS THEY WOULD LIKE. IT IS, HOWEVER, UNCLEAR WHAT THE GERMANS REALLY WANT FOR THEMSELVES ON THE BUDGET AND HOW THAT WILL INFLUENCE OTHERS' FLEXIBILITY, NOR IS IT CLEAR THAT THEY WOULD BE PREPARED TO PUSH OTHERS IN THE RIGHT DIRECTION RATHER THAN MERELY FOLLOW. THEY WILL WANT TO AVOID PROBLEMS WITH THE FRENCH AND OF COURSE ENDORSEMENT FOR THEIR NATIONAL AIDS.

FCO PLEASE ADVANCE TO:-

WILLIAMSON, DURIE: CABINET OFFICE

UNWIN, FITCHEW: HM TREASURY

TICKELL, RENWICK, FAIRWEATHER: FCO

ANDREWS, MRS ATTRIDGE: MAFF.

(ADVANCED AS REQUESTED)

MALLABY

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