

Qz.03792

MR POWELL

EUROPEAN COUNCIL, FONTAINEBLEAU, 25-26 JUNE

I attach for the Prime Minister speaking notes on:

- (1) "Europe - the future";
- (2) budget imbalances;
- (3) the question of a straight forward percentage return;
- (4) the details of a straight forward percentage return
(additional note for use if necessary);
- (5) the question of no United Kingdom contribution
to any alleviation of the German contribution
to our relief;
- (6) the 1984 budget overrun.

The first speaking note replaces that which was circulated with the briefs.

2. I am sending copies to Roger Bone (FCO),
David Peretz (H M Treasury) and to Sir Robert Armstrong.


D F WILLIAMSON

22 June 1984

STATEMENT
WALTON
ster
ster
EUROPE-THE FUTURE: DRAFT INTRODUCTORY STATEMENT
OF
ster

1. Welcome the opportunity of discussion today on future of the Community.
2. Need to discuss how we can develop a more effective Community; make a reality of aspirations of Treaty of Rome; enable Community to play a more effective part in creating conditions for economic recovery and job creation; and to play a more relevant part in lives of the people of all our countries.
3. President Mitterrand put forward far reaching ideas in his speech to the European Parliament. I circulated a paper, "Europe - the Future" to all Heads of Government. May be useful to describe it briefly.

Internal Policies

- We want to give our people the enormous benefits of a common market of 270m. The creation of a genuine common market in goods and services is crucial to our ability to meet the US and Japanese challenge. The success of US in creating new jobs (12 million over the last 10 years) - and Europe's

disappointing record - shows how important internal barriers are as an obstacle to job creation. And we want to make the Community more relevant to everyday life, for example by allowing us to travel as freely and as cheaply in Europe as Americans can in the US.

- We must exploit areas where action is more effective at Community level than nationally. We already have examples in ESPRIT and JET. By creating the conditions which promote collaboration as well as competition between European firms, we can enable them to compete effectively, especially in the new technologies, with their powerful rivals.

- We must coordinate our research and development efforts to avoid duplication and waste.

- We must do more to encourage the learning of other country's languages. Full access to each others satellite broadcasting systems would further cultural interchange.

- We must not lose sight of the quality of life.

Many environmental problems require action on a Community level. UK has already suggested measures to eliminate lead in petrol. It is time for a programme of research to solve the problems of acid rain.

External Policies and Security

- We must ensure that Europe plays a more effective role in the management of world affairs and the world economy. The Community already works together on many aspects of external affairs: the Common Commercial Policy; political cooperation; and the Community's many links with other countries and groupings. These must be brought together and given greater coherence.

- The Community must use its weight to influence the economic policies of the USA and Japan and act jointly with them to promote the liberalisation of international trade.

- In political cooperation the Ten should concentrate their efforts where their leverage is greatest and their interest most directly affected, eg Middle East and Africa.

- In defence and security our objective must be to strengthen the European pillar of the alliance and improve European defence cooperation.

- Strengthening democracy and political stability requires us to complete the negotiations for Spanish and Portuguese accession quickly.

Institutions

4. We also believe there is scope for improving Community institutions:

- a Commission of 17 after enlargement is in our view too large for efficiency or to provide real jobs for people of the highest calibre. We should agree to a Commission of 12 rather than 17 on enlargement.

- The European Council should consider adopting a brief statement of priorities with specific timings and targets at the start of each year.

- The Commission should weed out each year hopelessly blocked items and bring unnecessary blockages to the notice of the Council.

- One of the three annual European Councils might be conducted on the "Gymnich" pattern.

- The Parliament must be involved more harmoniously in the work of the Community.

- The Treaty's voting provisions should be preserved - though not at the price of voting down a Member State which explains why and in what way its very important interests are involved. That would set the Community back rather than promoting its progress. But we certainly agree that the Luxembourg Compromise should not be abused.

5. These are all practical ideas but far reaching. We are arguing for radical progress, far beyond the concept of a free trade area. We see the Community as the focus of our vital interests; as the framework for a new industrial revolution; and as the only basis for a healthy transatlantic relationship. Others have their own ideas. Let us try to pool our thoughts. We are willing to join in considering all suggestions. I hope others will consider the ideas I have just put forward in the same spirit.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER ON BUDGET
IMBALANCES

1. The UK hopes that this European Council will mark a turning point in the Community. If we can fulfill the tasks we set ourselves at Stuttgart we shall have achieved the sound basis on which the relaunch of the Community can take place. We have practical, but far reaching ideas for the future development of the Community, set out in our paper which I circulated to Heads of Government two weeks ago. But for any discussion of the future of Europe to have any immediate relevance we need first to complete the negotiations. That means settling the one issue that stands in the way of overall agreement, namely budget imbalances. Want you to be in no doubt of the UK's desire to settle this issue. We want to put behind us the repeated negotiations on this subject, to settle it once and for all and to get on with realising the goals we all share for Europe's future.

2. For this reason we want to make a real effort to clinch a settlement on the budget. The basis of such an agreement must be the position we reached in March after months of negotiation. In other words, one more year of ad hoc refunds in 1984 with the budget system starting in 1985. The budget system designed by the French Presidency and incorporated in the draft conclusions of the Brussels European Council endorsed the vital principle that contributions must be based on ability to pay measured by objective criteria. Issue now is how to move forward from position reached in March.

3. The simplest way to resolve the outstanding issue is to set the notional figure for 1983 which will determine how the system works from 1985 onwards. Our partners have offered 1000 mecu. We said at Brussels that we could accept 1250 mecu. An effort will be required by both sides to settle the matter; and that effort will be more costly for the UK than the Nine.

4. Our unadjusted net contribution is already 2 billion ecu a year. With an increase in own resources it would not be long before it reached 3 billion ecu. Even under the proposed system we shall still be contributing very large amounts to the Community and to the costs of enlargement.

5. We stand by our acceptance of the text tabled by the Presidency at the European Council subject to agreement on the notional figure. As I have already said, we are ready to join with others in making a real effort to resolve the remaining difference on the notional figure. This must involve movement in both directions. We can settle this on the basis of a fair compromise between 1000 and 1250 million ecu. Would remind colleagues that Britain will have to bear the total cost of such a move whereas the cost to other Member States of an equivalent move will be divided among nine. Are other Member States ready to settle this on the lines I have suggested?

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER ON
STRAIGHTFORWARD PERCENTAGE RETURN

1. In March we got close to agreement on a system tabled by the French Presidency. That text was the outcome of months of negotiation and we should be very hesitant about moving away from what was provisionally agreed. It can be in nobody's interest to reopen the negotiation on issues where outline agreement had been reached since this risks reopening wider issues affecting the whole negotiation.
2. The whole basis of this negotiation, from Stuttgart onwards, has been to achieve a budget system which would form part of the own resources decision of the Community. The Presidency text proposed just such a system which was carefully balanced to provide a reasonable degree of protection against an increase in the budget burden on a Member State which qualified. It is not clear how those essential elements of the system would be maintained under what is now suggested.
3. The Presidency proposal offers us only [65%] of the VAT share/expenditure share gap. That would leave us bearing a very large proportion of the burden represented by that gap, not to mention the real burden which is bigger still.
4. The 65% return on the VAT share/expenditure share gap represents 1054 mecus on 1983 figures. In other words it would produce a less equitable result for the UK than could be achieved by meeting each other half way under the system. Compared with the system, the percentage return, at the level proposed would expose the United Kingdom to much greater increases in our budget burden as our VAT share/expenditure share gap rises. Whatever happens we should still be getting only a 65% return on the VAT share/expenditure share gap.

5. For this reason, and for the wider reasons I have already mentioned, we should think very carefully before moving away from the system to try to reach a settlement on a percentage figure as suggested. For the UK to accept a percentage return at all would involve a substantial degree of economic risk. We would need to look at a significantly higher figure before we could consider this approach. We must achieve results which, in the long run, would provide the United Kingdom with results as satisfactory as meeting us half way under the system.

EUROPEAN COUNCIL: FURTHER SPEAKING NOTE ON STRAIGHT PERCENTAGE OF
VAT SHARE/EXPENDITURE SHARE GAP IF DETAILED DISCUSSION IS ENGAGED

1. As I indicated earlier, by whatever route a settlement is reached we must achieve a systematic and lasting approach reflecting the fact that this is a Community problem. The principles enshrined in the March Presidency text on duration and on incorporation of the corrective mechanism in the revised own resources decision must be maintained. It would be important too to ensure that, as has always been recognised, the corrective mechanism should be linked to relative prosperity. Officials should be asked to work on a text showing how this could be achieved. One way would be to express the link between relative prosperity and the rate of compensation in such a way that countries of below 90% of average prosperity in the enlarged Community would not be expected to have a negative VAT share/expenditure share gap at all, while countries between 90% and 115% of relative prosperity would qualify for a percentage return on the VAT share/expenditure share gap.

SPEAKING NOTE FOR USE IF IT IS SUGGESTED THAT GERMANY SHOULD PAY ONLY TWO THIRDS OF ITS FINANCING SHARE OF UK RELIEFS AND IF IT IS ALSO PROPOSED THAT BRITAIN SHOULD CONTRIBUTE TO SUCH AN ABATEMENT OF THE GERMAN CONTRIBUTION

1. The whole point of the system is to enable a Member State which bears a disproportionate burden to qualify for reliefs. Nothing could be more nonsensical than to expect us to contribute to help Germany pay her share of our reliefs. This is just another way of diminishing the benefits of the system. [As necessary]: If Member States wanted to go down this route then we should expect an increase in the notional figure [or percentage rate of return] to compensate us for the reduction in our reliefs.

[If there is further pressure for the UK to contribute to the abatement of German reliefs]: The only circumstances in which this might be looked at is if any UK contribution counted towards the measured VAT share/expenditure share gap on which we are entitled to correction. Officials should be asked to incorporate appropriate language in the text.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER
ON 1984 BUDGET OVERRUN

1. The UK is a bit surprised at this being raised in a substantive way today. Foreign Affairs Council discussed the issue last week and agreed that the question should be considered at the Budget Council on 19 July. It is very difficult for us to deal with the issue here without proper preparation. It is clear from the discussion that has already taken place that a lot more work needs to be done in searching for all available savings. Depending on the state of that work, and provided that we can reach satisfactory resolution of the wider negotiations here at Fontainebleau then we shall be prepared, on 19 July, to join in looking for ways of dealing with the problem.

2. [If pressed to accept that 1984 overrun should be financed by "advances" in accordance with VAT shares]: I understand that several Member States, like us, are opposed to the Commission's loan proposal. This proposal for advances does not seem very different. It is another way round the 1% ceiling. Our view remains that we should make substantial savings. The European

/Court

Court of Auditors has drawn attention to the fact that the Commission have not exhausted all the possibilities. At the same time, the Agriculture Council has not yet considered separate proposals put forward by ourselves and the Netherlands for savings. If, thereafter, it is clear that we cannot solve the whole problem by savings then we shall need to see how much expenditure could be deferred in 1985, bearing in mind that 675 mecu of expenditure was deferred last year.

[If others argue that deferral into 1985 will make it impossible to keep the budget within the 1% ceiling and will therefore require either supplementary financing or the early introduction of a revised own resources ceiling]

The British Government's position has always been that the Community budget must be financed within the ceiling of available own resources. If some expenditure is deferred into 1985 it will still be possible to keep the budget within the 1% ceiling. The main problem will arise in autumn when the principal burden of agricultural expenditure is felt. In our view, therefore, the best solution in those circumstances would be to bring the new own resources

/decision

decision into effect from 1 October 1985, so that the UK's 1984 refund could be financed by a reduction of VAT in 1985 and so that any 1984 overrun deferred into 1985 could also be covered.