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10 DOWNING STREET

Prime Minister

This contains the  
no

essential EC

points for your

meeting with

President Nittermond

the Prime Minister

Chirac, on Wednesday.

You may find it

useful to read over

the week-end. CDP  
24/7



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Qz.05914

MR POWELL (10 Downing Street)

Prime Minister's meetings with President Mitterrand  
and M. Chirac, 29 July: future financing of the Community

Briefing is being submitted separately for these meetings. I thought it might be helpful, in the light of our information on French views since the European Council, if I drew attention particularly to these financing and agricultural points -

1) size and structure of the Community's own resources. The French are willing to make some increase in the Community's resources unconditionally. They know, however, that the United Kingdom is not going to agree unless there is a package containing more effective and enforceable controls on public expenditure, including agricultural spending. Accordingly they are considering with their usual hard-headed realism what can be achieved. The dominant motivation of the French leaders is to avoid this issue complicating (and damaging their own prospects) in the French Presidential election; more specifically, to avoid any charge that French farmers or agricultural traders will not get their money because of a breakdown in financing, with the risk of emotive statements that the common agricultural policy is falling apart and that France has not defended it; and to judge the size of the increase in the Community's own resources finely so that it does not throttle agriculture (their guideline on the common agricultural policy is to preserve and adjust) but does restrict expenditure on, for example, the regional fund or in the south of the Community. They have accepted at the Brussels European Council that a new ceiling on own resources should be expressed in terms of Community GNP. They will probably accept the proposed new "fourth resource", ie that within the new ceiling the Community's revenue should come from (1) customs duties, (2) agricultural levies, (3) not more than 1% VAT and (4) a contribution based on the difference between the VAT base and GNP.



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We, on the other hand, are concentrating our fire on the improvements we must have in the control of public expenditure, including that on agriculture, within the Community and holding over our position on the size of any increase. Provided that the results on public expenditure control and agriculture are satisfactory, it must be in the United Kingdom's interest that the decision on the size of the Community's own resources should be sufficient to last and that the Community should not reopen all the issues (including the United Kingdom abatement) for many years. On the structure of own resources the Prime Minister will recall that the fourth resource is an advantage for the United Kingdom taxpayer but for that reason it may add to pressures against our abatement; if we can get the "fourth resource" and (which is an absolute requirement) no damage to the Fontainebleau abatement, we should be slightly better off.

The main points to make might therefore be:

- understand the Community's - and your political - reasons why an agreement should be reached, if possible, at Copenhagen. Certainly hope that it can be done. Nothing to be gained by a financial mess at the beginning of 1988 if we can get an acceptable package in December;
- United Kingdom's prime concern is to get two elements in the package - effective and enforceable public expenditure control of the kind we all have nationally and better arrangements to avoid serious imbalances in the markets for agricultural products. Have tabled our ideas on expenditure control (budget discipline and budget management): not revolutionary, just common sense; discussed with French (and German) officials before tabling and generally welcomed. On agriculture have tabled illustrative list of changes and expect these to be reflected in Commission's document;



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- if other elements satisfactory, consider that increase in own resources to be decided in December must be sufficient to fund the Community and reasonably long-lasting. When we have decided, do not want issue back again in this Parliament;
- open-minded on structure of own resources eg fourth resource.

Budget imbalances (United Kingdom abatement). The French will not in the end challenge the continuing United Kingdom abatement (which in any event requires unanimity to change) but they may join the Germans, Dutch or others in sniping at it during the future financing negotiation. The Prime Minister will probably not wish to initiate discussion since what we have, we hold. The line to take, if M. Chirac questions it, would be

- we have not proposed reopening the question of our abatement but, if others do so,
  - we would be looking for improvements and
  - in any event there is no question of our agreeing to a package which gave us a less favourable deal than the Fontainebleau settlement.

Agriculture. M. Chirac spoke to H M Ambassador about differences of approach on agriculture. It may be useful to remove some misconceptions and to clarify our objectives as follows:

- agree that we should try to find as much common ground as possible on future direction for CAP. Worldwide agricultural problems, but some French misconceptions about our position and objectives for the CAP. We want
  - a common policy (United Kingdom farmers efficient and can take advantage) with monetary compensatory amounts reduced and eventually got rid of



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- better arrangements within the existing policy to prevent the build-up of completely abnormal situations (eg over 1 million tonnes of butter in stock) requiring political trauma to correct them and heavy expenditure in the interim. Important the agricultural policy should not be discredited or take so much money that whole budget unbalanced. That is why we ought together to get into the regime the mechanisms to start the correction as soon as things start to go wrong. Favour price restraint but recognise in Community not possible to get correction by price alone. So we support "stabilisers" in the form of guarantee thresholds (limits on or reduction in the guarantee, usually triggered by excess production) or less rigid intervention. Key point is that, where there is a supply/demand imbalance we should let the market signals come through more clearly to the farmer. Against abnormal imbalances and excessive expenditure, not against normal mechanisms of the CAP. Absolutely no truth in suggestion that we want a general deficiency payment system: it would cost the earth.

- if it proved necessary to get the agreement of the Federal Republic of Germany or other member states, we could accept within a Community framework some temporary national aid to farmers in difficulty.

Oils and fats tax. M. Chirac will almost certainly raise this again. We have won the battle against this proposal. The Prime Minister may wish, therefore, to say no more than that it was fully discussed at Brussels and that we must agree to disagree.

Future work. We are keen to work closely during the autumn with - and are already in touch with - French and German officials with a view to settling some points and to maintaining the



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pressure for a satisfactory package on public expenditure control and agriculture. The Prime Minister may wish to refer to this.

I am sending a copy to Sir Robert Armstrong.

*D F Williamson*

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