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Mr. Fawcett

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TO IMMEDIATE FCO

TELEGRAM NUMBER 305 OF 22 MARCH

INFO ROUTINE UKREP BRUSSELS

IMMEDIATE

Step

EUROPEAN COUNCIL AFTERMATH : CALL ON LAUTENSCHLAGER

SUMMARY

1. NO RECRIMINATIONS. GERMAN CONCERN TO COOL THINGS. INTEREST IN FURTHER DISCUSSION AND NEGOTIATION. KOHL'S PROPOSAL MISUNDERSTOOD. WORRY ABOUT THE IMPACT OF THAT. KEEN TO CLEAR UP MISUNDERSTANDINGS. I HAVE AN APPOINTMENT WITH GENSCHER ON 24 MARCH. 9.30

DETAIL

2. WHEN I CALLED, AT HIS REQUEST, ON LAUTENSCHLAGER THIS MORNING HE SAID THAT HE WANTED TO MAKE A FEW GENERAL POINTS ABOUT THE WAY THE COUNCIL WENT AND TO CONSIDER HOW THINGS MIGHT BE CARRIED FURTHER FORWARD. CIRCUMSTANCES OF EUROPEAN COUNCILS LED FREQUENTLY TO SHARP DIVERGENCIES BETWEEN OBJECTIVE REALITIES AND SUBJECTIVE RESPONSES. THIS WAS PARTICULARLY SO AT A TIME WHEN SO MUCH WAS AT STAKE AND WHEN A COUNCIL HAD FAILED. IN PRESENT CIRCUMSTANCES THE LAST THING THE COMMUNITY NEEDED WAS A DRAMATISATION AND ESCALATION OF THE CONFLICT. SINCE STUTTGART A GOOD DEAL HAD BEEN ACHIEVED. THE REMAINING DIFFERENCES WERE SMALL AND OUGHT TO BE SOLUBLE. THIS WAS THE LINE GENSCHER HAD TAKEN YESTERDAY WITH THE PRESS. LAUTENSCHLAGER SAID THAT HE WAS GLAD TO SEE THAT IN BRITAIN TOO GOVERNMENT SPOKESMEN HAD BEEN MODERATE. THERE REMAINED, OF COURSE, THE DIFFICULTY ABOUT 1983 REFUNDS: WITHHOLDING PAYMENTS BY THE UK AT THIS STAGE WOULD HE FEARED MAKE SOLUTIONS MORE DIFFICULT.

HE TONE OF GENSCHER'S REMARKS (FOR WHICH LAUTENSCHLAGER CLAIMED RESPONSIBILITY). WE CERTAINLY HAD NO DESIRE TO ESCALATE THE CRISIS AND LAUTENSCHLAGER WOULD HAVE NOTED HOW THE PRIME MINISTER BOTH AT HER PRESS CONFERENCE AFTER THE COUNCIL AND IN THE HOUSE OF COMMONS HAD TAKEN PAINS TO GIVE A BALANCED ACCOUNT OF THE PROCEEDINGS AND TO PLACE THE SMALL DIFFERENCES REMAINING BETWEEN THE PARTNERS IN PROPORTION. WE BELIEVED IT WAS IMPORTANT TO RESUME THE DIALOGUE AND FOR THAT REASON GREATLY WELCOMED THE PRESIDENCY'S PROPOSAL THAT THERE SHOULD BE A FOREIGN AFFAIRS COUNCIL ON TUESDAY NEXT WEEK. LAUTENSCHLAGER SAID HE WAS GLAD TO HEAR THIS. THE SUGGESTION THAT THERE SHOULD BE A COUNCIL WAS ONE THAT THE GERMANS HAD MADE TO AND DISCUSSED WITH THE PRESIDENCY. THE COMMISSION, HOWEVER, HAD NOT BEEN AT ALL ENTHUSIASTIC (BUT WOULD NOT OPPOSE IT, IN HEAR).

4. THERE WAS ONE POINT, HOWEVER, THAT LAUTENSCHLAGER ATTACHED IMPORTANCE TO CLEARING UP. HE SAID THAT THE PROPOSAL MADE BY THE FEDERAL CHANCELLOR HAD EVIDENTLY BEEN MISUNDERSTOOD. CERTAINLY, COMMENT IN THE BRITISH PRESS SEEMED TO BE WELL-INFORMED. IT WAS NOT IN ESSENCE A PROPOSAL FOR A FLAT RATE OF COMPENSATION FOR FIVE YEARS. THE GERMAN AIM TO ACHIEVE A SYSTEM WAS, HE HAD ASSUMED, SELF EVIDENT. THE OBJECTIVE OF THE FIVE YEAR PERIOD HAD BEEN TO WIN TIME SO THAT THAT SOLUTION COULD BE CONVERTED INTO A SYSTEM. (THIS SEEMS TO BE CONFIRMED BY THE TEXT IN UKREP BRUSSELS TELNO 1050, PARA 4.) AND THERE WAS SCARCELY TIME NOW TO GET MORE THAN AN AD HOC ARRANGEMENT FOR 1984. IF ANOTHER AD HOC PROPOSAL WAS MADE THEN THE PARLIAMENT WOULD LOSE ALL PATIENCE. THE CONCEPT BEHIND THE CHANCELLOR'S PROPOSAL WAS THAT THE FLAT RATE SYSTEM WOULD BE CONVERTED AFTER A PERIOD INTO A REGULAR SYSTEM OF THE KIND THAT HAD BEEN UNDER DISCUSSION FOR MONTHS. HE COULD UNDERSTAND WHY THE BRITISH HAD REJECTED THE FIVE YEAR PERIOD GIVEN THAT NO PROGRESSIVITY WOULD BE PROVIDED FOR. BUT THE LENGTH OF THE PERIOD WAS NEGOTIABLE. HE MENTIONED THREE, TWO OR 'EVEN ONE' YEAR. ONE OF THE GREAT DIFFICULTIES OF COURSE WAS THE STARTING FIGURE AND, RELATED TO THAT, THE RATE OF GERMAN PARTICIPATION IN UK REFUNDS. BUT HERE THE CHANCELLOR HAD SHOWN FLEXIBILITY IN INDICATING THAT THE GERMANS WOULD BE PREPARED TO GO TO TWO-THIRDS OF THEIR NORMAL RATE.

BY THE CHANCELLOR'S PROPOSALS AND DEEPLY DISAPPOINTED. FOR MONTHS WE HAD BEEN IN THE CLOSEST CONTACT WITH THE GERMANS, DISCUSSING SYSTEMS AND WE HAD INDICATED THAT THE TIETMEYER PROPOSAL WAS ONE, WITH CERTAIN MODIFICATIONS, THAT WE THOUGHT PROVIDED A REAL BASIS FOR A SOLUTION. FOR THE GERMANS SUDDENLY TO SWITCH TO A LUMP SUM AND DEGRESSIVE SYSTEM WAS FOR US INEXPLICABLE. QUITE APART FROM THE FACT THAT IT DIDN'T MEET OUR NEEDS IT SEEMED TO IMPLY THE ABANDONMENT BY THE GERMANS OF THEIR OWN DEMAND FOR A SYSTEM. MOREOVER, IT UNDERSTOOD THAT WHEN THE PRIME MINISTER AND THE CHANCELLOR HAD HAD A BILATERAL DISCUSSION ON MONDAY EVENING (19 MARCH) THE PRIME MINISTER HAD DETECTED NO SIGN THAT THE CHANCELLOR HAD A RIGID FIXED CEILING SUCH AS HE HAD PROPOSED NEXT DAY. (LAUTENSCHLAGER INTERRUPTED TO SAY THAT THE CHANCELLOR'S PROPOSAL HAD ONLY BEEN WORKED OUT ON TUESDAY.) IN ADDITION, WE HAD IN OUR CONTACTS WITH THE PRESIDENCY BEEN GREATLY ENCOURAGED WHEN THEY HAD AGREED TO MAKE A PROPOSAL FOR A SYSTEM WHICH MET MANY OF OUR REQUIREMENTS AND WHICH INDEED CONTAINED A STARTING FIGURE THAT WAS A DISTINCT IMPROVEMENT ON WHAT THE GERMANS SEEMED READY TO AGREE TO. IT UNDERSTOOD FURTHERMORE THAT IN DISCUSSION WITH SIR M BUTLER TIETMEYER AND LAUTENSCHLAGER HAD GIVEN THE IMPRESSION THAT THE GERMANS WERE READY TO SUPPORT THE PRESIDENCY'S PROPOSAL AND THAT TIETMEYER SEEMED TO ACCEPT FIGURES ALSO. LAUTENSCHLAGER CLAIMED TO HAVE TOLD SIR M BUTLER THAT WHATEVER OFFICIALS PRESENT MIGHT SAY OR IMPLY, THE NEGOTIATIONS WERE TAKING PLACE AT HEAD OF GOVERNMENT LEVEL AND DECISIONS THERE MIGHT BE DIFFERENT. IT THEN DREW ON UKREP TELEGRAMS NUMBERS 1020 AND 1027 TO THE FOREIGN OFFICE AND ON FOREIGN OFFICE TELEGRAM NUMBER 100 TO ATHENS TO DEMONSTRATE TO LAUTENSCHLAGER HOW TOTAL THE MISUNDERSTANDING HAD BEEN. ALL THIS EVIDENTLY MADE AN IMPRESSION ON LAUTENSCHLAGER.

6. IT ALSO EMERGED THAT IT WAS NEWS TO HIM (PARAGRAPH 15 OF UKREP TELEGRAM NUMBER 1020) THAT THE PRIME MINISTER HAD BEEN READY TO AGREE A SYSTEM STARTING WITH 1250 MECU BUT PRECEDED WITH AN AD HOC SUM OF 1000 MECU FOR 1984. HE NOTED THAT CAREFULLY.

7. IN FURTHER DISCUSSION LAUTENSCHLAGER REVERTED TO THE IMPORTANCE FOR THE GERMANS OF THE OPENING FIGURE IN ANY SYSTEM AND ITS CONNECTION WITH THE GERMAN RATE OF PARTICIPATION IN OUR REFUNDS. HE SAID THAT ON THE BASIS OF 1000 MECU THE GERMANS, IF THEY WERE FULL PARTICIPANTS, WOULD HAVE TO PAY AN ADDITIONAL 360 MECU. THAT WAS NOT ON. HE ADDED, HOWEVER, THAT PROVIDED THE GERMAN CONCERNS ABOUT THE DEGREE OF THEIR PARTICIPATION WERE TAKEN INTO ACCOUNT THE GERMANS COULD, HE FELT SURE, BE MORE FLEXIBLE. THE CHANCELLOR HAD BEEN PREPARED TO PARTICIPATE TO THE RATE OF TWO-THIRDS OVER A FIVE YEAR PERIOD. HE MADE IT CLEAR THAT WE COULD ACCEPT AN AD HOC ARRANGEMENT ONLY IN RESPECT OF 1984. LAUTENSCHLAGER WAS INCLINED TO ARGUE THAT THERE WAS A CASE FOR APPLYING AD HOC ARRANGEMENTS TO 1985 ALSO, BEFORE INCREASED OWN RESOURCES BECAME AVAILABLE, BUT DID NOT PRESS THE POINT.

8. WE DISCUSSED BRIEFLY THE IRISH POSITION. LAUTENSCHLAGER FELT THAT THE IRISH HAD BEHAVED UNREASONABLY AND THAT THE OFFER MADE TO THEM OUGHT TO HAVE BEEN ACCEPTABLE AND WAS IN ANY CASE GENEROUS.

9. WE CONCLUDED BY AGREEING THAT IT WAS IMPORTANT TO TALK FURTHER. HE REMINDED HIM OF THE MANY CONCESSIONS MRS THATCHER HAD MADE, OF HOW COSTLY THE MCA PROPOSAL WAS AND THAT IT WAS VERY DISAPPOINTING THAT THE GERMAN PRESS AND SOME POLITICAL SPOKESMEN WERE SO HOSTILE AND DETERMINED TO SEE THE MATTER AS A NINE TO ONE CONFRONTATION.

COMMENT

10. IT IS ALARMING THAT LAUTENSCHLAGER (AND WE HAVE SUBSEQUENTLY LEARNT, GRIMM OF THE FEDERAL CHANCELLERY) WAS UNAWARE OF THE PM'S OFFER (PARAGRAPH 15 OF UKREP TELEGRAM NUMBER 1020). BUT AT LEAST HE HAS NOW TAKEN THAT ON BOARD. IT IS ALSO CLEAR THAT THE GERMANS ARE CONCERNED ABOUT WHAT THEY SEE AS MISUNDERSTANDINGS BETWEEN US.

11. IT IS CLEAR FROM LAUTENSCHLAGER'S REMARKS THAT WHAT THE
GERMANS REJECT THE PRESIDENCY PROPOSAL (AGREED WITH US) WAS THE
SPECIFIC PROVISION THAT GERMANY WOULD HAVE TO PAY ITS FULL (36 PER
CENT) SHARE OF THE COST. IT WAS, HE SAID, EASY FOR THE FRENCH TO
~~X&X&X~~ AGREE TO SOMETHING FOR WHICH GERMANY WOULD HAVE TO PAY SO MUCH.
X HE WAS DEPRESSED ABOUT THE FACT THAT IN THE RELATIVE DISARRAY
(BILATERALS
ETC) OF SUMMIT MEETINGS SUCH GRAVE MISUNDERSTANDING SHOULD OCCUR.

FCO PLEASE PASS ADVANCES

CAB OFF: WILLIAMSON, DURIE, SIMPLETON

FCO: TICKELL, HANNAY, FAIRWEATHER, WALL

HM TSY: UNWIN, FITCHEW, MORTIMER

MAFF: FRANKLIN, ANDREWS, MRS ATTRIDGE

TAYLOR

NNNN