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FROM UKREP BRUSSELS 011500Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 4293 OF 1 DECEMBER 1983

INFO IMMEDIATE ATHENS

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN

LUXEMBOURG

INFO SAVING STRASBOURG LISBON

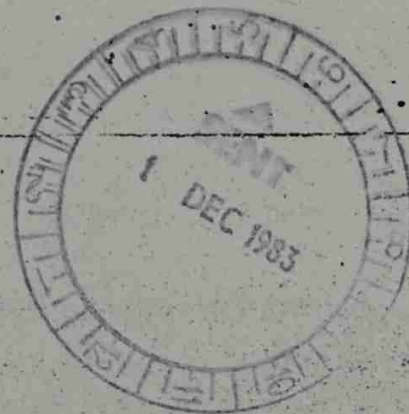
ATHENS EUROPEAN COUNCIL: THORN'S CALL ON THE PRIME MINISTER
2 DECEMBER

SUMMARY

1. THORN COMES TO LONDON VERY WORRIED THAT THE EUROPEAN COUNCIL WILL EITHER PRODUCE A BAD AGREEMENT WHICH DOES NOT TACKLE THE REAL ISSUES OR BREAK UP IN DISORDER, MAKING INEVITABLE A MAJOR FINANCIAL CRISIS. HE IS NO DOUBT AFRAID THAT HE WILL END HIS TERM AS PRESIDENT WITH THE COMMUNITY BANKRUPT. HE JUDGES THE PROBLEM OF BUDGETARY IMBALANCES TO BE OF CARDINAL IMPORTANCE BUT NOT THE MOST DIFFICULT TO RESOLVE. HE WILL PROBABLY BE HOPING TO WORK WITH THE PRIME MINISTER (A) TO BRING PRESSURE ON THOSE WHO, LIKE THE ITALIANS, SEEM DETERMINED TO EVADE THE NEED FOR SERIOUS REFORM OF THE CAP WITHOUT WHICH BREAKDOWN SEEMS TO HIM LIKELY, AND (B) TO ENSURE THAT THE EUROPEAN COUNCIL WILL NOT GET BOGGED DOWN IN THE CONFUSION HE DISCERNS IN THE PRESIDENCY'S APPROACH.

DETAIL

2. THORN REPORTED GLOOMILY TO COMMISSION ON 30 NOVEMBER. THE SPECIAL COUNCIL AND HIS BILATERALS SHOWED A REAL DANGER OF



~~DETAIL~~

~~2. THORN REPORTED GLOOMILY TO COMMISSION ON 30 NOVEMBER. THE SPECIAL COUNCIL AND HIS BILATERALS SHOWED A REAL DANGER OF FAILURE AT ATHENS. ACCORDING TO LEVER (TUGENDHAT CABINET) THERE WAS NO DISPOSITION TO DO MORE WORK ON ALTERNATIVE FORMS OF MODULATED VAT, INDEED CONSIDERABLE DOUBT WHETHER THE NEGOTIATION AT ATHENS WOULD GET INTO SUCH DETAIL. EQUALLY THE COMMISSION APPEARED TO HAVE DECIDED SIMPLY TO LET THE FRENCH AND GERMANS TRY TO COME TO TERMS ON MCAS AND SHOWED NO SIGNS OF WANTING TO HELP BY TAKING NEW IDEAS TO ATHENS. THE ONLY SUBJECT WHICH GAVE RISE TO ANY REAL DISCUSSION WAS THE FRENCH PAPER ON BUDGETARY DISCIPLINE. AS WAS TO BE EXPECTED THERE WERE SOME EXPRESSIONS OF OUTRAGE, BUT MORE REALISTIC ATTITUDES PREVAILED, AND IT WAS AGREED THAT THE COMMISSION WOULD HAVE TO BE WATCHFUL FOR UNDESIRABLE INSTITUTIONAL CONSEQUENCES IN WHATEVER TEXTS THE EUROPEAN COUNCIL DISCUSSES.~~

3. LACROIX (CENTRAL ADVISORY GROUP), WHO IS THE MAIN SOURCE OF DETAILED BRIEFING FOR THORN, TELLS US THAT THORN FEARS THAT THE FRENCH INITIATIVE ON FINANCIAL DISCIPLINE IS AN ATTEMPT TO EVADE A REAL REFORM OF THE CAP. HE IS QUITE UNSURE OF MITTERRAND'S LIKELY POSITION, HAVING HEARD SEVERAL DIFFERENT TUNES FROM PARIS. IN THORN'S VIEW A CRISIS IN 1984 AND 1985 WILL BE UNAVOIDABLE IF THE MINIMUM REFORM OF THE CAP (AS IN THE COMMISSION'S PROPOSAL) AND THE CONSEQUENT SAVINGS ARE NOT VERY RAPIDLY ACHIEVED. THIS IS REFLECTED IN THE ADDITION OF POINT 1.7 OF THE PRESIDENCY'S "POLITICAL" PAPER (10978/83), AT THE INSISTENCE OF ORTILI AND DAVIGNON. THORN IS CONVINCED THAT THE ITALIANS, IRISH AND POSSIBLY THE FRENCH WILL TRY VERY HARD TO RENDER THE REFORM INEFFECTIVE AND WANTS PAPANDREOU TO SEE THAT THE ISSUE CANNOT BE FUDGED. HE FEARS CRAXI, CONVINCED THAT THERE IS NOTHING IN THE PACKAGE FOR ITALY AND SULKING AT WHAT HE SEES AS GROWING CONNIVANCE BETWEEN FRANCE UK AND FRG, MAY PREFER TO CAUSE BREAKDOWN RATHER THAN AGREE TO SERIOUS REFORM. THORN MAY WELL THEREFORE WISH TO SPEAK FIRST AT THE EUROPEAN COUNCIL TO STRESS THE DIRE CONSEQUENCES OF FAILURE TO FACE UP TO REALITY ON THE NEED FOR REFORM.

4. A FURTHER SOURCE OF WORRY IS THE PRESIDENCY'S APPARENT CONFUSION OVER WHAT IT IS TRYING TO ACHIEVE. ORTOLI AND DAVIGNON, WORKING FAR INTO LAST NIGHT WITH VARFIS ON THE PRESIDENCY TEXTS, WERE UNABLE TO DISCERN WHETHER THE PRESIDENCY WILL BE AIMING FOR GENERALITIES OR OPERATIONAL AGREEMENTS. THORN FEARS THAT PAPANDREOU WILL NOT HAVE A CLEAR OBJECTIVE AND THAT IN THE FOG NO REAL NEGOTIATIONS WILL BE POSSIBLE. BECUASE HE THINKS AGRICULTURE IS THE KEY ISSUE HE HAS BEEN PRESSING THE PRESIDENCY TO START WITH IT. (WE HAVE POINTED OUT THE POSSIBLE CONTRARY DESIRABILITY OF STARTING WITH A FIRST DISCUSSION OF BUDGETARY IMBALANCES).

5. THORN IS UNDER NO ILLUSION ABOUT THE NEED FOR A SATISFACTORY SETTLEMENT ON BUDGETARY IMBALANCES. HIS BILATERAL CONTACTS HAVE PERSUADED HIM THAT THE REAL DIFFICULTY WILL NOT BE THE SYSTEM OR THE SCALE OF RELIEF BUT THE QUESTION OF FINANCING. THE GERMAN INSISTENCE ON NOT CONTRIBUTING MAKES THORN DOUBT WHETHER FULL AGREEMENT CAN BE REACHED. (THE QUESTION IS DIRECTLY PUT AT V2C

OR THE SCALE OF RELIEF BUT THE QUESTION OF FINANCING. THE GERMAN INSISTENCE ON NOT CONTRIBUTING MAKES THORN DOUBT WHETHER FULL AGREEMENT CAN BE REACHED. (THE QUESTION IS DIRECTLY PUT AT V2C OF 10978/83 AT COMMISSION REQUEST). THORN BELIEVES THAT THE FRENCH MAY CYNICALLY HAVE STOKED THE GERMANS UP ON THIS (EG THROUGH THEIR AD HOC KEY AMENDMENT TO THE DANISH PROPOSAL). HE BELIEVES THE POINT MUST BE TACKLED CALMLY, EARLY IN THE DISCUSSION. AS FOR THE SYSTEM ITSELF, THORN WILL STRONGLY ADVISE THAT THE UK SHOULD NOT INSIST ON THE CONCEPT OF NET CONTRIBUTION, BECAUSE THE ITALIANS WILL INSTANTLY RAISE THE NEED TO REDEFINE EXPENDITURE AS RUGGIERO MADE CLEAR IN THE PREPARATORY GROUP ON 22 NOVEMBER. BUT HE ACCEPTS THE NEED FOR MORE THAN AN EXPENDITURE GAP CORRECTION, PARTLY BECAUSE HE SEES SOMETHING LIKE MODULATED VAT AS A MEANS OF DEALING WITH THE GERMAN NEED NOT TO CONTRIBUTE TO UK RELIEF. HE THINKS THAT THE COMMISSION'S MODULATED VAT MIGHT STILL PROVE ACCEPTABLE AS A LAST RESORT, BUT IF IT IS NOT HE IS PREPARED TO CO-OPERATE IN WORKING OUT AN AD HOC MODULATION, EVEN THOUGH THAT WOULD MAKE THE GERMAN RELIEF MORE APPARENT.

FCO ADVANCE TO:-

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CAB - WILLIAMSON STAPLETON DURIE
MAFF - FRANKLIN ANDREWS
TSY - UNWIN FITCHEW EDWARDS
NO 10 - COLES

FCO COPY SAYING TO STRASBOURG LISBON

CCN PARA THREE LINE 11 ORTOLI AND DAVIGNON ETC

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