

SUBJECT McCMASTER

CONFIDENTIAL

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRESIDENT OF THE EUROPEAN COMMISSION AT 1115 ON FRIDAY 2 DECEMBER
AT 10 DOWNING STREET

Present: Prime Minister M. Thorn
Foreign and Commonwealth Secretary (for part of
the conversation) M. Noel
Mr. Williamson Mr. Meadows
Mr. Coles

* * * * *

The Prime Minister thanked M. Thorn for visiting London. She was sorry that she could not on this occasion offer him hospitality owing to the constraints of her programme. Athens would be a difficult Council. She was concerned about the order of items on the agenda and had written to Mr. Papandreou about this matter. M. Thorn said that he had seen the Prime Minister's letter. Effectively, there would be only some three hours for discussion on the first day and some of that would inevitably be devoted to discussion of the agenda. So it would be hard to get down to substance. The Prime Minister said that she thought it essential that the fundamental issues were put forward in discussion on the first day. Was it really necessary for Heads of Government to try to settle the detailed agricultural issues? If highly technical issues were discussed, she thought that each Head of Government should have an expert present in the room. M. Thorn said that he thought that this would be desirable when technical matters were being discussed. But during the more political exchanges, he thought the usual format should be observed.

Sir Michael Butler stressed the need to concentrate on the principal issues. It was important that Heads of Government should make progress on these on the first day so that drafting could take place overnight. The draft conclusions at present available were not an adequate basis for discussion.

The Prime Minister said that the two principal questions, the budget and control of expenditure, including CAP expenditure, / should

CONFIDENTIAL

should be discussed first. As regards the budget, we would stick absolutely to our requirement for a safety net. It was the key to resolution of other issues. How did Mr. Papandreou see these matters? M. Thorn said that this was not clear. As of earlier this week, the Presidency had been of the view that by late on the second day Heads of Government should proceed to discuss political co-operation and other matters. M. Noel commented that Mr. Varsis of the Presidency had wished to commence with the detailed agricultural questions. Sir Michael Butler said that he understood that President Mitterrand had asked Papandreou to leave the budget discussion until the end. This was misguided because this would not leave sufficient time for resolution of the matter. The Prime Minister said that she was not prepared to discuss detailed questions until agreement had been reached on the main issues. We should require that the subjects of interest to us were discussed pari passu with those matters of interest to others. With regard to control of Community expenditure, France, Germany and the United Kingdom now had similar interests. M. Thorn said that he himself had no particular preference with regard to the order of items. But the majority of governments, at Greek suggestion, wished to commence with the agricultural matters. Their aim was to establish whether there was a disposition to envisage cuts in the CAP. But the Prime Minister had told Mr. Papandreou that we wished to begin with the budget. His own thought was that the first discussion should embrace both the budget and the CAP. Sir Michael Butler said that two hours could profitably be devoted to each. The Foreign and Commonwealth Secretary commented that everyone was agreed that the issue of own resources should be left to the end.

M. Thorn said that if we wished to avoid failure at Athens, we would have to take precise decisions on particular issues. The Prime Minister said that she was not willing to agree to decisions piecemeal. Unless a whole package could be agreed, there would be a British reserve on everything. M. Thorn suggested that the Prime Minister should make that clear at the outset of the discussion.

/ Sir Michael Butler

CONFIDENTIAL

- 3 -

Sir Michael Butler observed that France had tabled draft conclusions relating to the control of EC expenditure. These had not yet been discussed. We should be able to take these conclusions as a basis for discussion, though we ourselves would have points to add. We did not think that the Presidency text on this matter was a valid basis for discussion. The Foreign and Commonwealth Secretary said that the Presidency text was satisfactory on certain points but was inadequate on the key issues.

The most Heads of Government could do at Athens was to arrive at Heads of Agreement. The Prime Minister said that she understood that the new French proposals would require amendment to the Treaty of Rome. M. Thorn confirmed that that was the Commission's view. The Prime Minister asked whether President Mitterrand would be likely to accept that the discussion should first concentrate on the two principal issues. M. Thorn said that French views were not clear but he thought this suggestion should be ventilated at the outset. The Prime Minister said that it was desirable that the Germans, the French and perhaps others should now be consulted about this point. If Heads of Government got down to these matters straight away, this would give the impression of impetus. The press could be briefed that fundamental problems had been addressed at the outset.

The Prime Minister repeated that the critical question for us was the safety net with respect to the budget. It was also essential that there should be effective control of EC expenditure generally and CAP expenditure in particular.

Sir Michael Butler said that a great deal would depend on the progress of the discussion on the budget. There had been some advance. It was agreed that corrections should be made on the revenue side by means of VAT reductions. The Commission had made the helpful proposal that a threshold should be established beyond which Member States would acquire a refund on the revenue side. This idea was gaining ground. But there was still the problem that a number of Member States

/ maintained

CONFIDENTIAL

CONFIDENTIAL

- 4 -

maintained that only a part of the problem could be dealt with. They based themselves on a concept of gaps which were artificial. The Prime Minister said that there was only one genuine gap, that between expenditure and income.

Sir Michael Butler said that it was not essential that the budget problem should be solved by a single mechanism provided that the whole problem was effectively dealt with. Had the Commission any new ideas? The Prime Minister said that it was essential to cover both the receipts and the expenditure side. M. Thorn agreed. President Mitterrand had told him that he could not accept "penalisation" of the CAP. Any modulation must cover all Community policies. The Foreign and Commonwealth Secretary asked whether the Commission had thought of an alternative to VAT modulation based on agricultural spending. It was this basis which was the objectionable feature.

Sir Michael Butler said that we had recently been examining a new idea. The "Dublin mechanism" had been based on the difference between a country's share of GDP and its share of own resources. If a revised version of this could be put forward then the whole problem could be dealt with by two different mechanisms. We had discussed this approach informally with the French, the Germans and the Greeks but it was not yet clear whether the idea would run. M. Thorn said that we should be realistic. This was not a new proposal. It had been discussed in 1981. Judging by conversations he had had, if we put it forward now, we should simply revive the arguments advanced against it in 1981. Sir Michael Butler said that we were in no doubt that our safety net proposal had enormous merits. But since others had taken up rigid positions against it, we might have to devise new means of achieving the same end.

At this point the Foreign and Commonwealth Secretary left for another engagement. M. Thorn said that he believed the Commission's own proposal was the second best solution for us. Sir Michael Butler said that we had to achieve a mechanism which was certain to work fairly for us and for others.

/ Confirming

CONFIDENTIAL

CONFIDENTIAL

- 5 -

Confirming this, the Prime Minister said that we would of course be prepared to contribute more to the Community if our share of Community GDP rose. It was clear that there was a great danger of Heads of Government being overwhelmed by technical detail at Athens. M. Thorn said that was precisely why he was so worried about the meeting.

Sir Michael Butler said that if the questions were wrongly posed, Heads of Government would just read out the stock briefs. It was perhaps desirable to direct discussion to the question of what the budgetary outcome should be in the first year of any new system. It was clear that whatever was agreed for us and the Germans, seven Member States would continue to be net beneficiaries. This left France which was bound to become a net contributor, because of a number of factors. What kind of arrangements would be fair for Britain, France and Germany? Objectively speaking, France would contribute twice as much as us. But that was not a realistic approach. Agreeing, the Prime Minister said that perhaps France and Britain should contribute about the same amount. That was a rather generous attitude on our part. M. Thorn said that a major difficulty would arise here. Most Member States accepted that there was a British problem. But they did not agree that something had to be done for Germany. And they knew that France would be the next in line. The Prime Minister commented that we had to think about the attitude towards the Community of the next generation of Germans. It was reasonable that there should be a limit on the German contribution. M. Thorn said that it might be possible to guarantee to Germany that the trend of increasing German contributions would not continue indefinitely into the future. Mr. Williamson said that that idea was not inconsistent with a scheme whereby France and Britain paid roughly the same amount and the Germans paid roughly what they already paid.

Sir Michael Butler asked whether it was clear that the Commission proposal for thresholds envisaged a threshold for

/ Germany.

CONFIDENTIAL

Germany. M. Thorn confirmed that this was the case. Sir Michael Butler commented that it was important for the success of any system on these lines that Germany should not reach its limit in the first year. This requirement should be helped by the fact that the net German contribution in 1983 should be several million ecus less than in 1982. So Germany should be able to contribute adequately to the United Kingdom refund and that would help with the other countries.

The Commission would need in Athens to be able to respond if Heads of Government asked for the 1983 position on net contributions. Figures would be required, even if there was a margin of error. Our own experts believed that the net German contribution for 1983 was considerably down. He repeated that we needed to move the discussion away from the stock basis. M. Noel commented that it was more-or-less accepted that there was a British problem. It was more difficult if the German problem was linked to the British problem. And if France was also involved, the situation became even more difficult. The Prime Minister commented that the idea that there should be a limit to the increase in the German contribution was not a very substantial concession for Germany. M. Thorn said that the growth of CAP expenditure was largely due to the fact that prices were calculated on the cost of agricultural production in Germany. That was why France made so much money out of the CAP.

Sir Michael Butler said that Germany would have to make concessions to France with regard to MCAs. With regard to the idea of producing a system under which France and Britain could contribute equally, this could be done by the way refunds were financed - thus countries who were net contributors would be progressively excused the more they contributed. There would also be a provision that the smallest countries should not bear too much of the burden. The Danes and the Benelux countries would not like this approach. M. Thorn commented that he feared that the Danish Government would not accept any decision for, following their experience with the INF question, they feared that they would not be able to secure a Parliamentary majority. Sir Michael Butler pointed out that in that case

CONFIDENTIAL

- 7 -

Danish farmers would go very hungry in the second half of 1984.

M. Thorn said that we should not worry too much about German attitudes. The Germans would give in on MCAs and simply wanted a financial limit for the future. The discussion should concentrate on the British problem. M. Thorn again recommended the Commission's proposal. The Prime Minister said that a safety net was essential. Sir Michael Butler commented that M. Thorn had recently said publicly that the Commission's proposal was a "real safety net". The fact was that the Commission's safety net was too close to the ground. The Prime Minister said that it was our safety net that was necessary - and that was a sticking point.

M. Thorn said that unless there was a clear orientation on the CAP, then the future was bleak. The Community was in bad shape. If agricultural production continued on its present trend, the Community would be bankrupt long before there was a ratification of the own resources decision. Agricultural policy was out of control. Price cuts and cuts in production were needed. The Prime Minister said that for us any revised CAP regime must be non-discriminatory; our farmers could not be penalised to subsidise inefficient farmers. Sir Michael Butler said that the Commission had proposed that there should be a limit on milk production of 97,000 tonnes. There was no way in which a higher figure could be financed. M. Thorn said that some Member States were now talking, absurdly, of borrowing money to finance higher production.

With regard to the structural funds, Athens should decide how much more money to allocate. The Commission had proposed a doubling of current provision. Mr. Williamson said that we stood on the Lancaster House text.

M. Thorn said that with regard to new policies, a clear decision should be taken on Esprit. A figure would be needed. In the initial stages Esprit could be financed from existing resources. The Prime Minister said that the Community needed

CONFIDENTIAL

/ to

CONFIDENTIAL

- 8 -

to make a choice, just as individual Member States had to. Some projects might have to be abandoned in order to finance Esprit. M. Thorn said that that depended on the decisions of the Council. Sir Michael Butler said that the Research Council would have to examine the priorities.

On enlargement, M. Thorn said that the prospects were still not good. Sir Michael Butler said that he thought that there had been evolution in the French approach. President Mitterrand was now prepared to set a date for completion of the enlargement process. Mr. Williamson commented that we believed that the French would accept the Presidency text on enlargement.

The discussion ended at 1220.

A. J. C.

2 December 1983

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

2 December 1983

Dear Roger,

Call on the Prime Minister by the President of
the European Commission

I enclose a record of the conversation
between the Prime Minister and M. Thorn which
took place here this morning.

I am copying this letter and enclosure
to John Kerr (H.M. Treasury), Robert Lowson
(Ministry of Agriculture, Fisheries and Food)
and Richard Hatfield (Cabinet Office).

Yours ever

John Kerr

Roger Bone, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

R