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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND MONSIEUR
GASTON THORN, PRESIDENT OF THE COMMISSION OF THE EUROPEAN
COMMUNITIES ON 15 JUNE 1984 AT 1700 HOURS

Present:

Prime Minister	M. Gaston Thorn
Foreign and Commonwealth Secretary	M. Noel
Mr. Williamson	M. Schaub
Mr. Powell	

The Prime Minister and M. Thorn began with the
tete-a-tete discussion lasting some 30 minutes.

British Budget problem: prospects for European Council

The Prime Minister then reported that M. Thorn had
told her that he believed several Member States wanted to
see progress on the British Budget problem at the Foreign
Affairs Council on 18/19 June. She had made clear to
M. Thorn that the starting point must be the system as set
out in the draft Presidency conclusions of the Brussels
European Council with one ad hoc year. There must also be a

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guaranteed financial guideline, again as set out in the draft conclusions of the last European Council. The negotiations would be about the notional figure for the system. This would have to be high to take account of the fact that the UK had already made a concession on the size of the gap to be measured. The UK would have little room for manoeuvre. In any case, the sums in question did not amount to a great deal when divided among nine other Member States. She had made clear to M. Thorn that there must be substantial progress before Fontainebleau if there was to be any realistic chance of reaching agreement there.

M. Thorn agreed that at the least there must be an effort to close the gap before Fontainebleau. The timetable there would be very tight if the Presidency adhered to their current intentions on the agenda. The French were taking the line that progress could best be made in bilateral negotiations between them and HMG, on the grounds that the other eight agreed with them. He doubted this. Several other Member States were frustrated and mistrustful of behind-the-scenes manoeuvring. Sir Geoffrey Howe said that he had got the impression from M. Tindemans and others that they were anxious to see progress. M. Thorn stressed the importance of taking the opportunity offered by the Foreign Affairs Council. He thought that it should be possible to get to 1050 mecu as the notional figure at Luxembourg with a higher figure at Fontainebleau.

Sir Geoffrey Howe said that M. Thorn should be clear that the UK wanted to see the problem solved. This would open up the future development of the Community. But the Government had very limited room for manoeuvre. They would have to live with the consequences of a settlement for many years ahead. We sometimes had the impression that others did not fully appreciate all that the UK contributed to Europe. We accepted the notion of swings and roundabouts but people asked where were the roundabouts? When discussion of

the Budget problem had started he had in his own speeches spoken of seeking a broad balance in what we contributed and what we gained. From there the Government had moved to talking of the UK being a modest net contributor to the Community. We were now willing to envisage a contribution which was far from modest, indeed generous. Our case for a fair settlement of the Budget inequity was a very strong one.

M. Thorn replied that he wanted to find a settlement rapidly and before leaving office as President of the Commission. He was not fond of the British problem but it must be solved and the solution must be durable. He wished to make a further point. If the UK got its system, it would be to its advantage to agree to increase the own resources ceiling to 1.5%. If necessary this could be in two steps, with the second step requiring a unanimous decision of the Council. The Community was already virtually at 1.2% and enlargement would cost an additional 0.1%. If the decision taken at Fontainebleau was to increase own resources to only 1.4%, then further negotiations for a higher ceiling would have to start within a very short time. This would mean reopening the system agreed for the UK.

The Prime Minister disagreed. Sound financial management was needed. Those Member States who were net contributors could not go on paying out indefinitely. 1.4% would represent a major increase. If enlargement was responsible for only 0.1% the rest presumably had to be put down to extravagance. M. Thorn said that some Member States including the UK had said that economies could be found. It was up to them to demonstrate where they could be found. The Prime Minister observed that the Commission ought to know best. As regards the period before the system would come into operation, the 1% ceiling would apply. There would be no legal basis for expenditure beyond that.

M. Thorn asked whether the Prime Minister would be content to leave discussion of the Budget problem until the end at Fontainebleau. The Prime Minister said that it must be taken first. If it was not settled, it was hard to see how there could be useful discussion of other subjects. It was no use running away from the problem. M. Thorn said that Heads of government should avoid getting into the technical details. The Prime Minister observed that nothing could be regarded as agreed until everything was agreed in detail.

M. Thorn pointed to the risks that the German problem could be an obstacle to agreement at Fontainebleau. The Nine might agree on a solution to the British problem but not on the German problem. He saw a risk that the Germans would raise the matter at the last moment and dig in. Mr. Williamson thought that the Germans would contribute normally. They would want a limit, though would probably accept a high one. He assumed that the French Presidency would suggest what the German limit would be. M. Thorn commented that the Germans would probably think in terms of a limit which would be reached at the time of their next Elections.

M. Thorn asked how the Prime Minister saw the discussions at Fontainebleau on the longer term issues raised by President Mitterrand. The Prime Minister said that she envisaged only a preliminary discussion. Mr. Williamson added that any conclusions could only be procedural.

M. Thorn asked about the Prime Minister's views on the Spinelli proposals. The Prime Minister said that the UK had not received them formally. From what she had heard, she was not enthusiastic. She could not envisage any change in the veto.

Enlargement

M. Thorn asked whether the Prime Minister could envisage accession of Portugal to the Community without Spain. The Prime Minister said that she had a great admiration for Portugal. But it was hard to see how one could join without the other. She doubted whether Portugal would want to come in alone. If Spain did not after all come into the Community, it would be necessary to renegotiate the Community's 1971 trade agreement with Spain very quickly. It was far too one-sided in Spain's favour.

Presidency of the Commission

M. Thorn recalled that the European Council was due to decide on his successor. The Prime Minister said that she assumed that Chancellor Kohl would be putting forward a candidate. M. Thorn agreed, but there might be different views.

C D P

C.D. Powell
15 June 1984

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FCSE BM/SH

Subject a master

bcc: SIR P. CRADOCK



10 DOWNING STREET

From the Private Secretary

15 June, 1984

Dear Roger,

Prime Minister's Meeting with M. Thorn

I enclose a record of the Prime Minister's meeting today with M. Thorn.

The meeting started with a discussion between the Prime Minister and M. Thorn alone. I understand that most of the points raised in it were repeated in the subsequent meeting. However, M. Thorn did in addition say to the Prime Minister that he thought that 1100 million ecu could be agreed by other Member States at Fontainebleau as the notional figure for the system.

I am sending copies of this letter to David Peretz (H.M. Treasury) and David Williamson (Cabinet Office).

yours sincerely
C. D. Powell

C. D. POWELL

LST

R. B. Bone, Esq.,
Foreign and Commonwealth Office

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