



Foreign and Commonwealth Office

London SW1A 2AH

19 November 1987

Dear Charles,

Prime Minister's Meeting with M. Chirac:
EC Future Financing

We have kept in close touch with the French. Our views on a number of central issues in the negotiation are similar. They broadly agree with us on the need to control agricultural spending. They favour our proposed improvements to budget management. They oppose the Commission's proposal for a large increase in the own resources ceiling, but see the merits of the proposed fourth resource. They oppose the doubling of the structural funds, and favour limiting the overall increase by skewing it towards the poorest member states, particularly Spain and Portugal.

There are four areas where we and the French clearly do not agree. First, M. Chirac is still wedded to the oils and fats tax (probably rather more so than President Mitterrand). There is no point in further detailed discussion with him: if he raises the issue this weekend, the Foreign Secretary's view is that the right answer is to agree to disagree. We believe that the Germans, Dutch and Danes remain with us in blocking the proposal: we hope that M Chirac too will establish that before Copenhagen, and conclude that time spent on the issue there would be time wasted. But if he were to take the line, this weekend, that if the tax does not go through the Community must face the financing consequences (it would have raised 1.3 billion ecu in the first year), that would not be unreasonable, and the Prime Minister might wish to say that the question is certainly relevant to the future agricultural guideline level, due to be set as part of an overall Copenhagen deal.

Secondly, while the French accept the continuation of a UK abatement, they want it to be on a degressive basis, and are therefore likely to support the Commission's proposal (which would leave the UK some £700 million worse off in 1992). The French also know, however, that we will not accept anything less than Fontainebleau, and they reject the German suggestion that the FRG should not



contribute. The Prime Minister will wish to confirm that the Fontainebleau abatement is for us an absolute requirement: there can be no agreement at Copenhagen which does not include its continuation. If appropriate, she might wish to add that the introduction of the fourth resource (since it would benefit us) could in fact enable the abatement numbers to be rather lower.

Third, on the key issues of stabilisers/CAP reform, there clearly now are major Franco-German efforts to find common ground before Copenhagen. The French, while they have this autumn accepted the concept of stabilisers, are still reluctant to accept that they should become an automatic in-year "financial guillotine". They are talking of the possibility of setting a limit to price falls, and of treating the whole arable sector as one unit. This would mean that increased wheat production could be offset by, for example, reduced barley production. They would also only penalise increases in yield per acre rather than increases in total acreage under a particular crop. Both suggestions may in part be sops to the Germans: neither is of course welcome to us: both would substantially weaken impact on the Budget. These issues are being argued out in the Agriculture Council, which will resume on 23 November. But they are unlikely to be resolved there.

Finally, the French also say that agreement to an exceptional circumstances clause is essential for any agreement to a reinforced guideline/stabilisers regime. Though they talk of wider formulae, they might in the end settle for some provision to cope only with large dollar/ecu changes, in-year, in either direction (ie the guideline would be reduced if the \$ rose steeply, and increased if there were a further substantial fall). At the ECOFIN council this week M. Delors, responding to the Chancellor, said that in his view exceptional circumstances could be limited to fluctuations in the rate of the ecu.

It is in our interests to try to discourage the French from slipping back still closer to the Germans (and away from us, the Dutch and the Commission) on the agricultural issues. The pressures on both sides to avoid an open row in Copenhagen, shortly before the Elysée Treaty anniversary, will be considerable. Our best tactic is to convince the French that we are ready for a deal, if the terms are right. This offers the best chance of encouraging them to avoid selling out to the Germans on stabilisers. Our chances of securing effective CAP reform - at Copenhagen or next year at

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Hanover - will be much improved if we can retain the support of the French, as well as the Dutch and the Commission.

I enclose a speaking note on which the Prime Minister may wish to draw in Paris.

I am copying this letter and attachments to Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture and the Cabinet Secretary.

longer,

A handwritten signature in dark ink, appearing to read 'L. Parker', with a small horizontal line underneath the name.

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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MEETING WITH M. CHIRAC : POINTS TO MAKE

General

- it is clear from our contacts since Brussels that our thinking on the key issues is similar. Control of non-agricultural spending; limiting increases in the structural funds: better budget management. It is important that we continue to work together for the agreement in Copenhagen we both want.

- agreement has to be on right terms; above all, an agreement on effective and binding control of agricultural expenditure.

- If achieved, we can then focus on the more important tasks which confront the Community, in particular completing the single market by 1992.

Agriculture

- effective control of agricultural spending means a guideline which is binding.

- the starting point for the agricultural guideline must be such as to keep spending within reasonable limits. Similarly we should keep the rate at which the guideline grows between now and 1992 below the rate of growth of GNP. But a realistic rebasing clearly will be necessary.



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- no agreement on the guideline will however be possible at Copenhagen unless we are sure that it will in future be enforced. This means stabilisers for all commodities, and proper monitoring and control systems.

- some, but not yet sufficient, progress in Agriculture Council. Vital to have effective controls in all commodities.

- and to ensure that the guideline is not riddled with loopholes for exceptional circumstances. The logic of budgetary discipline is that there should be no such loopholes.

- the least objectionable form of "exceptional circumstances" would be strictly \$/ecu related, symmetrical (ie covering movements in both directions), with a high threshold, and provision if necessary for national financing of any excess spending permitted in this way. The wider formulae so far tabled go much too far.

Structural Funds

- it is important that we work together to damp down the expectations of unrealistic increases in Structural Funds. There has already been a substantial increase (47% in real terms) since 1984.

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- but don't exclude possibility of some additional resources from the Regional Fund for the 4 poorest states (Portugal, Greece, Ireland, Spain), or Spain and Portugal. Know you have raised these ideas with Spain and Portugal: regard them as useful.

Own Resources

- similarly we should stand together with the FRG and the Netherlands in our opposition to a 1.4% GNP ceiling on own resources.

- indeed, we cannot agree to any increase in own resources until the British Parliament can be satisfied that Community spending will really be under control in future.

- should certainly not agree to an interim increase for 1988; would remove all incentive to reach agreements on the really important issues: budget discipline and agricultural stabilisers.

- if measures to control Community spending are not agreed by Copenhagen, the Community will have to deal with the 1988 problem by the normal, legal way of starting the year on a regime of provisional twelfths.

- any change to the Fontainebleau abatement system must make UK's budget burden less, not more, onerous. The UK abatement was agreed at Fontainebleau as a fair and equitable way of dealing with that burden. Even with abatement, the UK was still a substantial net contributor to the Community in 1984. Since then, our underlying

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budgetary imbalance has more than doubled, as UK press/Parliament/public are well aware. After abatement we remain the second largest net contributor, despite being about average in Community prosperity.

[As necessary] - our views on the oils and fats tax have not changed, so we shall have to agree to differ on that. But accept that the absence of the tax will have financing consequences, which will need to be dealt with in the overall package.

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MR POWELL

(No 10 Downing Street)

CHIRAC

Following the Prime Minister's meeting with Mr Williamson this morning, you might like to consider adding two points to those which Mr Parker's letter of 19 November suggests.

2. First, it is possible that French hesitations on stabilisers owe something to fears that we might pocket their concessions, but not agree at Copenhagen to an increase in the own resources ceiling. If so, it would be useful if the Prime Minister were to assure M. Chirac that she remains ready to agree to a realistic increase in the ceiling provided our conditions on spending control are met.

3. Secondly, it will be important to keep in close contact with the French on the issue of the "financial objective" for the structural funds. The Prime Minister might wish to confirm that M. Chirac remains opposed to "doubling" and in favour of keeping to the maximum rate. If M. Chirac says that it may in practice be necessary to concede an increase in excess of the maximum rate, the Prime Minister might say that she believes the outcome is something which the Northern member countries can in fact control: but it will be essential to keep in close touch.


R G LAVELLE

20 November 1987