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FRAME ECONOMIC

MIPT: EUROPEAN COUNCIL: MESSAGE TO GENSCHER

1. FOLLOWING IS MY MESSAGE TO GENSCHER:

BEGINS

DEAR HANS-DIETRICH

THANK YOU FOR TELEPHONING YESTERDAY. I SHARE YOUR WISH TO SETTLE AS MUCH AS POSSIBLE AT THE CONCLAVE, AND WOULD BE HAPPY TO HAVE ANOTHER WORD BEFORE THEN. IN THE MEANTIME IT MIGHT HELP YOU TO HAVE THIS NOTE OF MY VIEWS.

THE KEY TO SUCCESS AT BRUSSELS IS SECURING FIRM CONTROL OF SPENDING ON AGRICULTURE. WE MADE SOME PROGRESS IN MONDAY'S COUNCIL ON THE GUIDELINE, MONETARY RESERVE, ETC. YOU KNOW THE IMPORTANCE I ATTACH TO OFF-GUIDELINE PROVISION FOR THE DISPOSAL OF OLD STOCKS: YOU ALSO NOW KNOW THAT WE CAN AGREE TO A MONETARY RESERVE, PROVIDED IT OPERATES WHOLLY SYMMETRICALLY AS THE DOLLAR RISES OR FALLS, AND THAT THE CONCEPT OF EXCEPTIONAL CIRCUMSTANCES IS DROPPED. BUT THERE MUST BE A SURE MEANS OF ENFORCING THE GUIDELINE, AND ON THIS ISSUE WE APPEAR TO BE GOING BACKWARDS.

WE AGREED IN BRUSSELS LAST JUNE THAT THERE MUST BE EFFECTIVE STABILISERS FOR ALL COMMODITIES. THE PROPOSALS THAT WERE ON THE TABLE AT COPENHAGEN CAME CLOSE TO WHAT IS REQUIRED, BUT I UNDERSTAND THE GERMAN NEED FOR A COMPLEMENTARY SET-ASIDE SCHEME. SUCH A SCHEME IS NOW ON OFFER, AND WE ARE READY TO HELP YOU FINALISE IT. BUT WE COULD NOT AGREE THAT THE KEY STABILISERS FOR CEREALS AND OILSEEDS SHOULD BE SUBSTANTIALLY WEAKENED. THEY HAVE TO PROVIDE GENUINE RESTRAINT ON SUPPORT COSTS. FOR THE REASONS SPELLED OUT BY JOHN MACGREGOR IN THE AGRICULTURE COUNCIL, THE PRESIDENCY PROPOSALS IN THEIR CURRENT FORM DO NOT REPRESENT A CREDIBLE MEANS OF STABILISING COSTS AND COULD NOT BE THE BASIS FOR AN AGREEMENT AT BRUSSELS. WE NEED TO GET BACK TO THE CONCEPT OF EFFECTIVE STABILISATION, WITH ITS IMPACT ON THE FARMER CUSHIONED BY SET-ASIDE. THAT MUST BE OUR PRINCIPAL TASK AT THE CONCLAVE.

ON THE STRUCTURAL FUNDS, I BELIEVE THAT A SATISFACTORY

OUTCOME IS OBTAINABLE, PROVIDED YOU, WE,THE FRENCH AND THE DUTCH STAND TOGETHER IN FAVOUR OF A SIGNIFICANT INCREASE BUT AGAINST ONE WHICH EXCEEDS ONE AND A HALF TIMES THE MAXIMUM RATE. IT IS VITAL TO AVOID AN ANNUAL HAGGLE WITH THE EUROPEAN PARLIAMENT ABOUT SETTING A NEW MAXIMUM RATE. IF WE DEPART FROM THE AUTOMATIC CONSTRAINT PROVIDED FOR IN ARTICLE 203, THE ONLY EFFECTIVE CEILING ON NON-OBLIGATORY EXPENDITURE WOULD BE THE OWN RESOURCES CEILING ITSELF. I BELIEVE WE CAN GO A LONG WAY TOWARDS MEETING THE INTERESTS OF SOUTHERN MEMBER STATES BY THE CONCENTRATION ON POORER REGIONS WHICH IS ALREADY ENVISAGED, AND BY AN INCREASE OF UP TO 50 PER CENT IN REAL TERMS WHICH WOULD STILL - JUST - BE CONSISTENT WITH THE MAXIMUM RATE PROVISIONS. THIS WOULD PERMIT DOUBLING REGIONAL FUND COMMITMENTS FOR THE FOUR LEAST PROSPEROUS COUNTRIES, AND DOUBLING OVERALL STRUCTURAL FUND RECEIPTS FOR SPAIN AND PORTUGAL, BY 1992. I BELIEVE THAT IF WE MAINTAIN OUR AGREEMENT ON THIS POINT, THE SOUTHERN MEMBER STATES WILL IN THE END DROP THEIR DEMANDS FOR OVERALL DOUBLING OF THE FUNDS THE UK MOVE TO ACCEPTANCE OF AN 50 PER CENT INCREASE IS A SIGNIFICANT ONE, BUT WE CAN MOVE NO FURTHER.

ON THE FOURTH RESOURCE, WE CAN SETTLE FOR ANY OF THE OPTIONS NOW ON OFFER, AND ARE READY TO SEE THE NEW RESOURCE, WHATEVER ITS FORM, TAKEN FULLY INTO ACCOUNT IN THE ANNUAL CALCULATIONS UNDER THE FONTAINEBLEAU ABATEMENT MECHANISM. BUT AS I EXPLAINED ON MONDAY, WE CANNOT ACCEPT ANY WIDER CHANGE TO THE ABATEMENT. GIULIO ANDREOTTI'S CONCLUSION THAT IT IS BEST NOT TO RE-OPEN FONTAINEBLEAU IS CHARACTERISTICALLY WISE. ALL THE ARGUMENTS THAT WERE FINALLY ACCEPTED IN 1984, AFTER FIVE DEBILITATING YEARS OF NEGOTIATION, ARE AS VALID NOW AS THEY WERE THEN. WITH THE HONOURABLE EXCEPTION OF THE FEDERAL REPUBLIC, MOST MEMBER STATES - MANY MORE PROSPEROUS THAN THE UK - STILL ENJOY SUBSTANTIAL NET BENEFITS. BUT THE UK'S NET BURDEN - MEASURED AS AGREED AT FONTAINEBLEAU BY OUR VAT SHARE/EXPENDITURE SHARE GAP - HAS INCREASED BEFORE ABATEMENT FROM 1.4 BILLION TO 3.4 BILLION ECU LAST YEAR: NET OF ABATEMENT IT HAS RISEN FROM AN AVERAGE OF SOME 0.6 BILLION IN 1983/4 TO SOME 1.2 BILLION IN 1987. IT WILL RISE FURTHER IF THE BUDGET GROWS AND SPENDING IS CONCENTRATED MORE ON THE SOUTH. WE ARE NOT SEEKING THE IMPROVED ABATEMENT WHICH WOULD BE OBJECTIVELY JUSTIFIABLE, NOR ANY BENEFIT FROM THE FOURTH RESOURCE. BUT WE CANNOT ACCEPT A FURTHER ARBITRARY INCREASE IN OUR NET CONTRIBUTION THROUGH A CUT IN THE ABATEMENT. YOU WILL UNDERSTAND THAT OUR POSITION ON THIS IS VERY FIRM. I BELIEVE IT IS WIDELY UNDERSTOOD BY HEADS OF GOVERNMENT. I DO NOT BELIEVE WE SHOULD WASTE PRECIOUS TIME AT THE CONCLAVE DEBATING IT FURTHER.

ALL THESE ISSUES ARE DIFFICULT, BUT ALL ARE SOLUBLE. I

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BELIEVE THAT THE EUROPEAN COUNCIL CAN REACH AGREEMENT, PROVIDED WE DO NOT TRY TO DUCK THE CENTRAL TASK OF ESTABLISHING EFFECTIVE BUDGETARY DISCIPLINE TO BRING SOARING CAP COSTS UNDER CONTROL. THE COMMUNITY'S HEALTH AND STANDING REQUIRES US TO TACKLE THIS SQUARELY. SUCCESS IN THIS SHOULD PROVIDE THE MOMENTUM TO SOLVE THE OTHER ISSUES AND THEN SETTLE THE CEILING ON OWN RESOURCES. FAILURE WOULD CONDEMN US TO FURTHER DEBATE UP TO, AND PERHAPS BEYOND HANOVER, INEVITABLY DELAYING PROGRESS ON THE MARCH TO 1992. I AM SURE THAT NONE OF US WANTS THAT.

I LOOK FORWARD TO HAVING ANOTHER WORD WITH YOU BEFORE THE CONCLAVE.

WITH BEST WISHES, GEOFFREY.

ENDS

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