

RECORD OF A MEETING BETWEEN THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS, THE RT HON SIR GEOFFREY HOWE QC MP AND THE FRENCH MINISTER FOR EUROPEAN AFFAIRS, M ROLAND DUMAS HELD AT 1 CARLTON GARDENS, LONDON, AT 8.00 AM ON FRIDAY 24 FEBRUARY 1984.

Those Present:-

The Rt Hon Sir Geoffrey Howe QC MP
Mr D H A Hannay CMG
Mr J S Wall MVO

M Roland Dumas
M Guy Legras,
Chef de Service,
Quai d'Orsay

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Budget Discipline

Sir Geoffrey Howe said that encouraging progress had been made at la Celle Saint Cloud on this subject. The Commission's new proposals had some good points but needed strengthening. M Dumas wondered whether the Commission might firm up their paper in some respects. Mr Hannay said that the Commission's proposals were reasonably satisfactory on obligatory expenditure, although some detailed work would need to be done on them; on non-obligatory expenditure, it was difficult to see them volunteering anything more satisfactory, because they were terrified of the Parliament. M Dumas agreed and thought that the French Presidency would produce a new document which could either be given to the Commission or circulated as a separate text. The first requirement was to find a system which would contain overall Community expenditure within agreed limits and which could be effectively applied. The second requirement was how to control the CAP.

Sir Geoffrey Howe said that we needed a system incorporated in Community rules so that it would be binding on all three

institutions. Those like the European Parliament who were demanding more own resources must accept the discipline which went with it. We should not rule out Treaty amendment.

Mr Hannay said that we were concerned that the present Commission text was not clear enough on the control of agricultural expenditure, ie the extent to which the Commission would be bound by any proposals it made and in its administration of the CAP. There were also technical issues to be resolved, eg clawback, the workings of the three year moving average etc. Those detailed issues could probably not be decided by the time of the March European Council. But the European Council should decide on a framework which would ensure that the agreed mechanisms were implemented in a binding way. As regards control of agricultural expenditure, we wanted language to ensure that it rose at a markedly lower rate than the growth of the Community's own resources base.

M Dumas said that this latter point caused problems. He agreed that we needed a special agreement on the CAP, implemented through a directive or something similar which might emanate from the Commission document or from a separate Presidency paper. The French would be inclined to say that the rate of growth of agricultural spending should not exceed that of the own resources base. Sir Geoffrey Howe said that this was not tight enough. We must have an effective constraint keeping the growth of agricultural expenditure below that of own resources, if there was to be room for growth of new policies. M Dumas said that he thought the French could accept that the rate of CAP spending should be lower (not markedly lower) than the rate of growth of the own resources base.

M Legras said that the Community was taking steps to deal with surplus milk and cereal production. But that still left the problem of other products. Mr Hannay said there clearly needed to be a text committing the Community to applying guarantee thresholds for all sectors which were or were likely to be in

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surplus, or where such measures proved necessary because of a significant increase in expenditure or where production was increasing more rapidly than consumption. The Germans had put forward a good formula on these lines at Athens. M Dumas said that he liked this formula and would look positively at the German text for a possible base for Presidency language for Brussels.

Turning to non-obligatory expenditure, Sir Geoffrey Howe said the Commission proposals needed tightening up. Mr Hannay said that we did not wish to exclude the possibility of Treaty change. But we were not insisting on Treaty change at this stage. What was needed was language indicating that whatever arrangements were agreed for budget discipline would be incorporated as an integral part of the Community's budget procedures. M Dumas agreed. M Cheysson had wanted to avoid any reference to Treaty change. He himself thought that there should not be a precise reference to Treaty change. If the Parliament was not willing to accept the necessary discipline then it would be up to the Community to take action. Any new arrangements which were agreed by the Council should be put to the Parliament. Mr Hannay said that it would be important to stipulate that the agreed measures should be part of the agreed budgetary procedures. Otherwise we would simply be writing in a very weak political undertaking. M Dumas agreed.

Sir Geoffrey Howe picked up the point made by M Dumas about the European Parliament. It was the Parliament which was most enthusiastic for an increase in own resources. National Governments were all constrained by financial reality. The Parliament was not. The old revolutionary cry of 'no taxation without representation' had been turned by the Parliament into 'no representation without subsidisation'. This was why we were insisting on incorporation of budget discipline in the budgetary procedures. M Dumas said that he envisaged language saying the the Community would take all the necessary measures to ensure observance of the guideline. This would keep open the possibility of revising the Treaty.

/Mr Hannay

Mr Hannay said that there was a problem of timing. It was essential that incorporation in the budget procedures should take place at the same time as approval of any legal texts required to amend the own resources decision. The British Parliament would not accept any amendment to the own resources decision unless they could see clearly at the same time how budget discipline would work. Sir Geoffrey Howe endorsed this view. M Legras accepted the position, reiterating that a reference to all necessary measures being taken ("toutes mesures necessaires") was called for.

M Legras said the Community would face a real problem in that there would be a significant jump in agricultural spending in the first year of enlargement. We must find some means of reconciling that with the guideline. Mr Hannay said that this pointed to the need for detailed work to be done after March on how a three year moving average would work. The same problem arose over the own resources base, particularly if there were an increase in own resources. Some way must be found of accomodating a possible jump in expenditure from enlargement without increasing overall expenditure levels. Sir Geoffrey Howe said that these issues were not suitable for detailed solutions at the Summit.

M Legras said we also needed, at some stage, to sort out the problem of the confusion over obligatory and non-obligatory expenditure. Mr Hannay said this could be easily resolved if we went down the route of Treaty amendment. The original Delors proposal had included the abolition of the distinction between obligatory and non obligatory expenditure; but once it had been realised that this would mean Treaty amendment the proposal had been rapidly withdrawn. If the Community were to decide a Treaty amendment, was necessary, that problem could be easily addressed.

Budget Imbalances

Sir Geoffrey Howe said that, while the French must be tired of hearing about net budgetary contributions, it was not only the UK

which spoke in those terms. The Commission had been producing figures on that basis since 1978 and this method of calculation had been used as a bench mark by all in the Community. The British had become accustomed to our burden being measured in terms of our net contribution. The result of any agreement would be measured in that way. The same applied to the Germans and would also apply to the Portuguese who would were likely to find themselves net contributors. M Cheysson had said at the weekend that if we British chose to present the issue in that way, that was our funeral. But it was not quite as simple as that. No-one in the Community should deceive themselves that the issue could be presented differently when it came to ratification. As to the VAT/expenditure share measurement we did not believe that was satisfactory. If it were to deliver sustainable results, defensible before Parliament, the parameters of the scheme shown to us by the French would need to be very substantially changed.

M Dumas said that he understood the problem but our approach was anathema to all our partners, none of whom accepted the idea of net contributions which was not in conformity with the Treaty. Nonetheless, he understood the UK's domestic problem and the way in which we would wish to present the results of the negotiation. He thought, however, that only Mrs Thatcher and President Mitterrand could discuss figures.

Sir Geoffrey Howe said that there should be no misconception as to what we were talking about. The Prime Minister had said at Athens that we should consider a net contribution for the UK, in the first year of a new system applying to the enlarged Community, of 400-500 mecus. The fact that in 1983 we had accepted a refund of 750 mecus, leaving us with an adjusted net contribution in that year of about 1150 Mecus, did not mean that that kind of figure was acceptable for the future. We had accepted to bear a higher than justified net contribution in 1983 because of the unintended over payment of refunds in 1980 and 1981. M Legras commented that President Mitterrand had sent a letter after the Stuttgart Summit

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making clear that he did not accept that the "trop perçu" had been dealt with by the Stuttgart agreement. Sir Geoffrey Howe commented that it was nonetheless necessary to understand what the realities were.

Mr Hannay said that when the Prime Minister had spoken of a scheme leaving a net contribution for the UK of 400 to 500 mecus that had been an adjusted net contribution figure. If the French were proposing a scheme which scored our levies and duties as VAT in the measurement of the gap then some 350 mecus on the average of the last few years would have to be added to any residual figure which emerged from such a scheme. If we were to agree a system that would bring about the results suggested by the Prime Minister, then the parameters of a scheme built on the VAT/expenditure share would need to be very generously drawn indeed because of the need to take account of this point.

M Dumas asked whether the UK was resolutely opposed to a scheme based on the VAT/expenditure share gap. Sir Geoffrey Howe said that it was difficult - perhaps not impossible - to see how such a scheme might deliver the right result but the discounts currently built into the French scheme would have to go. M Dumas said that the scheme should be measured by the results it gave which could be adjusted to fit anything that emerged on figures when President Mitterrand and the Prime Minister met.

Commenting on the detail of the scheme Mr Hannay said that the French proposal to omit 50% of administrative expenditure was designed to reduce the apparent amount of our net contribution. We saw no justification for such a change. Both M Dumas and M Legras acknowledged that this was not an important element of the scheme from their point of view. Mr Hannay said that if the system was to work it must give sustainable results. Both the levies and duties element and the VAT element in our net contribution tended to fluctuate. M Legras commented that our GDP share fluctuated even more. Mr Hannay said that another issue was whether to use the payments, the assiette or the budget basis for

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the measurement of VAT. The payments basis had many advantages, notably because it avoided a large number of subsequent adjustments. But the main point, as experience has shown, was to adopt one particular system and then stick to it.

Sir Geoffrey Howe said that, even more important, was the French system of steps in the correction rate under their proposed system. This meant that if relative prosperity improved by 1% compensation could decrease by 35%. We thought it better to base the correction rate on a linear curve. M Legras said that this would not cause problems provided that the system operated only for the UK. Britain should help press the FRG not to be covered by the scheme. Mr Hannay said that we were reluctant to accept that there should be any contribution above the threshold at all. The threshold was designed to establish what constituted a fair burden. But if there was to be a so called ticket modérateur then it should be set on the basis of a linear curve relating to relative prosperity. M Dumas said that this depended upon the position of the Germans. Mr Hannay said that it was possible to move the starting point of the line and/or make the angle of the line steeper to give a higher figure for the German threshold. As far as financing of the scheme was concerned, if the Germans participated fully then it must be clear that our relief would be net of any contribution to our own reliefs. But if the Germans too were to get relief, our relief would need to be net of any contribution to German relief as well. M Dumas asked why Britain should not contribute to German reliefs. Mr Hannay said because then the reliefs would not be proper reliefs. M Legras said that the scheme should be net for the UK alone; but the UK would have to contribute to any reliefs for the FRG. This was why it was so important to keep the Germans out of the scheme. Mr Hannay said that it would be impossible for us to argue against a German claim that they bore an inequitable budget burden. The Prime Minister had always said that she understood their need to have an upper limit on their contribution, albeit at a higher level than our own because of their greater prosperity. The Prime Minister would be unlikely to take the view that there was now no justification for

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an upper limit for the FRG. M Dumas said that this was why he would act as our advocate in the matter.

Mr Hannay said that it was essential that any new mechanism for budget imbalances should apply in respect of 1984 and each year thereafter. Mr Dumas said that this was well understood. ("Cela va de soi")

Turning to duration, Sir Geoffrey Howe said that the suggestion that the scheme should last as long as the new own resources decision appeared to meet our needs, in other words the scheme would remain in place unless and until there was a further own resources decision, ie it would survive unless displaced by a further unanimous decision on new own resources which would require ratification by national Parliaments. M Dumas agreed that the application of the system would be linked to new own resources and would come up for review with any change in own resources. The higher the level of new own resources that UK could accept the longer the new system would last. If the UK could accept an increase to 2% that would mean longer duration. Sir Geoffrey Howe said that the size of any increase in own resources must be determined on its own merits. M Dumas interjected that there were different ways of appreciating merits. Sir Geoffrey Howe said that we must approach the question in the light of budget discipline. M Dumas said that any increase would be a ceiling; we did not have to gobble up everything at once. Sir Geoffrey Howe said that the appetite tended to grow with feeding. We would have a problem with national Parliaments who would see the increase as a transfer of own resources. Mr Hannay added that any increase to a figure above 1.4% would surely be unsaleable in the British or German Parliaments. He accepted that we would not be using up all the money straight away but Parliaments would see the proposal as a transfer of fiscal capacity away from national Governments. M Dumas said that anything above 1.4% might cause problems in France too. Sir Geoffrey Howe added that the Commission's original proposal that, after the initial increase in own resources there

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could be further increases without the approval of national parliaments was equally unacceptable. Mr Hannay said that it was important not to speculate about how long any new own resources decision might last. M Dumas readily agreed. We should avoid any suggestion of a time limit by simply linking duration of a corrective system to the duration of the amended own resources decision.

New Policies

Sir Geoffrey Howe said that it was very important psychologically to have something in the Brussels declaration on New Policies. He would give M Dumas a paper which set out our priorities. We also hoped that there would be an early meeting of the Internal Market Council (M Dumas said that one would take place on 8 March) and also a meeting of the Transport Council. This could be politically useful particularly given current difficulties. M Dumas did not dissent. He said that he would ask President Mitterrand to discuss new policies with Mrs Thatcher. They would in any case otherwise only have budget figures to argue over.

CAP

M Dumas said that milk was a difficult problem. There was general agreement on the figure of 97.2 million tonnes. The problem was how to get there. Mrs Thatcher had said to him it was necessary to do it in one year but had not dissented when he had had commented that it was politically impossible for France to do so. He recognised that the absence of "no" did not mean yes. But France did need a 3 year phasing, ie, from 107 to 102 million tonnes in year one; from 102 to 99 million tonnes in year two and from 99 million to 97.2 million tonnes in year three.

Sir Geoffrey Howe said he understood why the French wished to approach the problem in that way but he was not sure it was politically wise. The British Government had taken a similar approach to increasing gas prices and had suffered much political criticism in the second and third years; there was a strong

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argument in favour of taking these unpalatable measures all at once. A 3 year approach would provoke an outcry each year adding to the political pressures to abandon the system before it was properly in place. The question was, how to finance the extra expenditure that would be involved under the French proposal. Cost implications were fairly terrifying. Mr Hannay said that M Villain had produced figures showing that every additional one million tonnes of dairy produce cost the Community 235 million ecus. We were thus talking about an additional cost of 2 billion ecus over the 3 year period. M Dumas acknowledged the problem of finance but said that politically speaking France favoured phasing.

Sir Geoffrey Howe said that we favoured 1983 as the right base year as being the closest to existing patterns of production. There could even be legal problems over a 1981 base year since some farmers could argue that they had been encouraged by the Community to increase production since 1981, whereas no one could argue that from 1983 onwards a super-levy had not been in prospect. We were however prepared to accept that people could arrive at the target figure by different routes, ie 1983-in our case and 1981+ in the case of some others.

M Dumas asked whether we would accept two-year phasing for France rather than 3-year. Sir Geoffrey Howe said that we would have to go on opposing such a proposal because we did not see how money for such a proposal could be found. He added that, while there might be a need for some flexibility the more flexible the scheme was, the more opportunity for fiddles. The intensive levy laid itself open to abuse of this kind. Nor could we allow exemptions of the kind Italy was seeking. Italy was seeking an exemption because it was not self sufficient in milk but Britain was not self sufficient in milk either (M Dumas registered surprise.) Nor did we think an exemption should be allowed for the Irish. M Dumas said that he thought that exemption for Ireland had already been agreed at Athens. Sir Geoffrey Howe said that

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this was not so and explained that, if an exemption were granted to Ireland, we would have to seek one for Northern Ireland, which would in turn lead others to seek exemptions. The Prime Minister had suggested at Athens that, if something needed to be done for Ireland, it should take the form of some special compensation outside the milk sector M Dumas said that this did not seem to be a bad idea.

M Dumas said that we must take account of the problems of small farmers. Sir Geoffrey Howe said that we faced a similar problem but were opposed to special treatment for small farmers. Countries like France and Britain could no doubt effectively introduce and administer a scheme for them but in countries which did not have the equivalent of the Milk Marketing Board, the opportunities for fraud were enormous.

Concluding this part of the discussion, Sir Geoffrey Howe referred to the need for progressive cereal price reductions to bring Community prices nearer to the world prices. Mr Hannay said that we understood the French Government was not opposed to decreasing the gap between the EC cereal prices and world prices in a series of steps.

Enlargement

M Dumas asked whether Sir Geoffrey Howe agreed that we should have something in the Brussels statement on enlargement. The requirements of the enlargement negotiations pointed to the need for decisions at Brussels. If there was no agreement on own resources there could be no enlargement. How did we see the text?

Sir Geoffrey Howe said that we did not think a long text was needed. The Community should be firm on the date for completion of the substantive negotiations (end-September) and the date for

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accession (January 1986). The idea of enlargement was not universally applauded within the Community. France had problems and many in Britain were questioning the costs of enlargement. This was why the concept of an overall package as laid down at Stuttgart was so important. M Dumas suggested that there should be a sentence in the passage on enlargement about the need to avoid surplus production, though this passage should not name names, but should refer to managing the problem. Mr Hannay said that such a passage should refer to the need to avoid surpluses in the enlarged Community; it should not be directed solely against Spain. M Dumas agreed. The problem was even greater with the existing Mediterranean Member States. Sir Geoffrey Howe referred to our suggested language on guarantee thresholds as a suitable model.

Future Meetings

Sir Geoffrey Howe and M Dumas agreed that it would be useful if they were to meet again after the Prime Minister's meeting with President Mitterrand in London on 5 March.

The meeting ended at 10.15 hours.

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