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Ref. A084/677

PRIME MINISTER

European Community: French Views on the
Post-Stuttgart Negotiations

I had a meeting in Paris on 29 February with Monsieur Attali of the Elysee about the post-Stuttgart negotiations on the future financing and development of the Community. Mr Williamson and Monsieur Bianco were also present. The purpose of the meeting was not only to make an up-to-date assessment of the points on which we agreed or disagreed with the French but also to discover how President Mitterrand intends to present the problems at his meeting with you on 5 March.

2. After we had made clear that you and Chancellor Kohl had continued to find common ground on many of the major issues and that you were both looking for a settlement on satisfactory terms at the next European Council, I again stressed that you would only accept a package meeting the conditions which you had set out at Stuttgart and, in particular, that the application of a lasting system for correcting the budget inequity must give rise to a satisfactory figure for the adjusted United Kingdom net contribution.

3. Monsieur Attali set out the French views on the major issues as follows:

(i) Control of spending. He shared the view that no decision should be taken which would close the option of amending at a later date the articles of the Treaty of Rome on the European Parliament's powers on non-obligatory expenditure. It was clear, however, that no amendment could be agreed in advance of the European Parliamentary elections. On the financial guideline for agricultural expenditure (obligatory expenditure) he was in favour of a formulation on the lines of that discussed at the European Council at Lancaster House. We stated that it was a requirement for the United Kingdom that the guideline should be incorporated as a legal requirement in the budgetary procedures of the Community.



(ii) The budget imbalance. Monsieur Attali said that the control of spending would in the French view be sufficient for the Germans (and a large advantage for the United Kingdom). In these circumstances it was not necessary to do anything more for Germany, which should also contribute its full share of any compensation for the United Kingdom. Mr Williamson said that our understanding of the German negotiating position was that Germany did require a limit on its net contribution just as the United Kingdom did, although the practical effect of the two limits might be quite different. Monsieur Attali said that the French approach to the budget imbalance, which he still sees as a "compensation to the United Kingdom", was based on three elements: first, France was prepared to make what he saw as a major concession to the United Kingdom and to agree that there should be a revised financing system, even though President Mitterrand had opposed such a change in the past; secondly, France was ready to agree that this should run as long as the revised level of own resources. He emphasised that by conceding these points the President would be giving you two major political victories. Thirdly, France would make these steps only if the amount of compensation to the United Kingdom resulting from the revised system did not exceed the figure of 750 million ecu agreed at Stuttgart (ie on 1982 or 1983 figures a United Kingdom adjusted net contribution of about 1200-1300 million ecu). I said that there did now seem to be progress on the adoption of a system and on duration, but I made it very clear that the French ideas on the level of compensation to the United Kingdom were a very long way from being acceptable to us. You had made clear that, in a lasting package covering also the question of own resources, you were looking for a system correcting the budget imbalance leaving a United Kingdom net contribution of the order of 500 million ecu. The gap between the United Kingdom's requirements and the French figures was extremely wide. Monsieur Attali suggested that, if agreement could not be reached in Brussels on the post-Stuttgart negotiations, the payment of the refunds due to us in respect of earlier years would be at risk. I said that in that event you would



have to protect our position, and I invited Monsieur Attali to look over the edge of the cliff at the abyss for Europe, in political as well as economic terms, that would ensue from failure to reach agreement at Brussels.

Monsieur Attali said that France now expected that the system for correcting the budget imbalance would provide partial compensation related to the difference between the VAT share and the expenditure share. We made clear that the United Kingdom's net contribution contained an element - in recent years up to 350 million ecu a year - which was the result of our high contribution of levies and customs duties. This should be covered. If this were not to be directly covered, it followed that the margin of manoeuvre in setting up an acceptable scheme based on the VAT share/expenditure share gap would be very narrow, since you would need the resulting net contribution to be no higher than the sort of level which you had indicated.

(iii) Own resources. Monsieur Attali said that seven or eight member states could accept an increase in the maximum VAT rate of 1.6 per cent or 1.8 per cent. France could accept 1.6 per cent. If, however, Germany and the United Kingdom could only agree to 1.4 per cent, France could also accept that. He suggested that one advantage of a higher figure was that it would last longer.

(iv) Agriculture. Monsieur Attali said that on MCAs France considered that the latest German proposal was a step forward, although they had not yet decided whether they could agree with it (the proposal apparently involved the dismantling of three points of the existing German positive monetary compensatory amounts in the price package by converting it into negative monetary compensatory amounts for some other member states; the dismantling of five points on a timetable still to be agreed by cutting German farmers' prices in national currency and compensating them from national funds; and the dismantling of the rest in the normal way under the gentleman's agreement). He reported that France was also



looking for various changes in the method of calculating monetary compensatory amounts, eg for pigmeat, with which we do not agree.

On milk, Monsieur Attali said that the super-levy should operate above 97.2 million tonnes but that this point should be reached in two stages; that it should apply to dairies, not farms; and that there should be exceptions for smaller farmers. Mr Williamson made clear that there are differences of view on important points on the super-levy; that it was now under detailed discussion in the Agriculture Council and the High Level Group; and that we could not pick out some points but not others for separate bilateral discussion.

4. In discussion of the preparation for your meeting with President Mitterrand I said that you could not accept that the 750 million ecu agreed for the United Kingdom's 1983 refund at Stuttgart was a proper basis for decisions on the compensation for the United Kingdom and the resulting level of net contribution under a lasting revised system of financing the Community. You had agreed to that figure at Stuttgart because, taken together with the results which had proved rather favourable to the United Kingdom in earlier years, it had been possible to present the figures over the period of four years from 1980 to 1983 as an outcome for the period as a whole consistent with the intention of the 30 May 1980 agreement (ie a net refund of about 65 per cent). It would surely be helpful to President Mitterrand's presentation of any package yet to be agreed that the settlement conceded by Monsieur Giscard d'Estaing had in one year resulted in a net contribution of almost nil for the United Kingdom.

5. When he comes to see you on 5 March, President Mitterrand will have completed his bilateral contacts with other Heads of Government. He expects, therefore to begin by giving you a summary of his conclusions from those meetings. I think that he may say that his objective is to reach as much agreement as possible before the European Council on matters which can be settled elsewhere, in order that the European Council can deal with the four or five major points that can be settled only at that level: the amount of the increase in own resources, the system for correcting budget



imbalances, the values to be put on the variables in that system (those are the values which will determine the size of our net contribution), and probably the timing of the milk super-levy. My advice is that he is likely to concentrate on these points:

- (i) prospects of an agreement at the next European Council;
- (ii) confirmation that progress towards an agreement on the control of agricultural and other spending is possible;
- (iii) unveiling of the "French package" on correcting the budget imbalance, ie a system which lasts as long as the increase in own resources and based on the VAT share/ expenditure share gap but giving compensation to the United Kingdom of about 750 million ecu (leaving a United Kingdom net contribution on 1982 or 1983 figures of the order of 1200-1300 million ecu). There should be no limit or a very high limit on the net contribution of Germany which would be required to contribute fully to the compensation for the United Kingdom. Compensation would be financed on a normal VAT key.

6. We shall be submitting briefing to you for the meeting with President Mitterrand, which will take account of this information. Monsieur Attali expressed the view that President Mitterrand would be pleased if he could reach agreement with you on some points on 5 March. On the basis of the "package" above it seems to me that you could say that you are glad that there is no further talk of ad hoc solutions; that the acceptance by member states that the new financing system is to be incorporated in the revised Own Resources Decision is realistic; and that it is now necessary to begin to discuss realistically the level of acceptable net contribution which would result for the United Kingdom from the application of a revised financing system, since the figures now being put forward by France could not lead to an agreement at the next European Council. I am sure that he knows that, and that 750 million ecu is not his final word; I judge that we shall not know his final word until Brussels; I imagine that he will not expect to hear your final word at Chequers; and that he will be



looking for any indication that you want a settlement at Brussels and that, having "won" on the system and on duration you will not arrive in Brussels absolutely inflexible on amount.

7. I am sending copies of this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

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ROBERT ARMSTRONG

2 March 1984