

FROM: Sir Crispin Tickell

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CD/ 12/6

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## EUROPEAN COUNCIL PREPARATIONS: BUDGETARY IMBALANCES

During the London Economic Summit, I saw a good deal of my Community counterparts, all of whom wanted to make points about work on budgetary imbalances.

2. Signor Ruggiero (Italy) said that there were constant rumours about new ideas and proposals. They were rarely consistent with each other. His Prime Minister knew little about the subject, and what he knew he did not like. For internal political reasons, he was if anything slightly more inclined than before to listen to his Foreign Minister. As for Signor Andreotti, he was more than ever against anything which could be described as a system. His present preference was for one or two years fixed refunds (Signor Ruggiero agreed that the second year might be higher than the first) followed by a 'risk-sharing' arrangement which could cover two-thirds of the VAT/expenditure gap. When I said that this was the wrong gap, he shrugged his shoulders and said that that would be a point for negotiation: we knew the views of the others. As for duration he thought that any such arrangement would last as long as the new own resources figure of 1.4% of VAT.

3. Signor Ruggiero admitted that none of this had been properly thought out. The Italians had views on the subject, but they were inevitably waiting on the Presidency. He emphasized the familiar point that the Italians were ready to contribute to compensation for Britain but would not agree to pay compensation to the Federal Republic or France. Hence the Italians had a preference for a system tailor-made for Britain.

4. Dr Fischer (FRG) was more worried than Signor Ruggiero. He also said that there was a lot of ideas floating about, including in Bonn, but not all of them could be taken seriously. Up to 7 June he had understood from M Morel (Elysée) that the French had some new proposals. These were, he believed, to establish a fixed refund of 1000 million ecus a year over 5 years. This figure would be topped up each year so as to bring it up to two-thirds of the VAT/expenditure gap. The resulting sum would then be reduced by a surcharge arrangement according to a GNP key. Dr Fischer said that he now understood that the French had abandoned these proposals, and he did not know what they now had in mind. He was surprised to hear that they had not put them to us, and pressed me hard to indicate the area in which we thought a useful negotiation could take place. I said that as he had stated these ideas to me, they were obviously unacceptable.

We had to have an arrangement which would last as long as the new own resources system, and thereby take the problem out of politics. We should work on the system agreed at Brussels. Moreover he was talking about two-thirds of the wrong gap.

5. Dr Fischer said that he was aware of the dealings we had had with M Davignon. Could we have accepted what M Davignon had then been willing to propose? I replied that we had been most grateful to M Davignon for his efforts. As the French had not been willing to go any further with him, it would be pointless for us to take up a firm position on his ideas.

6. M Thorn and M Ortolli (Commission) spoke to me at different times on the need for progress. They said that the Commission would do all it could to help. We had only to let them know. M Durieux separately said the same. We should stick to the Brussels system. The Commission was, he said, better aware than the member states of the consequences of a failure at Fontainebleau.

7. I have recorded separately my conversation with M Jean-Claude Paye(Quai d'Orsay) on 8 June (not copied to all). M Morel (Elysée) spoke to me next day of the need for early progress if we were to have things ready for an agreement at Fontainebleau. In this respect the timing of President Mitterrand's visit to Moscow was unfortunate. The aim of the French was to have something ready for M Mitterrand to look at - in a word the framework in which an agreement might be reached - on the aircraft to or from Moscow, where he would be from 21 to 23 June.

8. It was evident that after President Mitterrand had spoken to the Prime Minister at 08.45 hrs on Saturday, 9 June, the French must have informed at least the Germans that M Mitterrand had put certain thoughts to the Prime Minister. Dr Fischer was very anxious to know her reaction. On this I made no comment except to repeat that, as he knew, we would be in touch with the French at an official level during this week. Dr Fischer was worried about how the matters might be handled at the Foreign Affairs Council at the beginning of the week after. He thought it impossible to avoid a discussion, yet feared that such a discussion without proper preparation might make things worse rather than better.

9. There is increasing agitation as we move towards Fontainebleau. I noticed less inclination to blame us, and more willingness to juggle with formulas. By their relative inaction the French have exposed themselves to considerable reproach. At present our willingness to move if others do so too has put us in a good position. But this will last only as long as others remain immobile. This week and next we may find ourselves obliged to get out of the trenches and into the more difficult area of manoeuvre.



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