

Prime Minister (2)

C.D.P.
22/6

EC BUDGET: TELEPHONE CONVERSATION WITH DUMAS: 22 JUNE

1. The Secretary of State telephoned Dumas this morning. He said that we were grateful for President Mitterrand's letter. We were in general agreement with the approach it contained (Dumas intervened to apologise for the fact that the text had evidently been made available to Reuters in Brussels). The Secretary of State said that we hoped to discuss the budgetary problem on the first day, in order to work towards a settlement. Dumas agreed, but commented that it might not be right to start directly with that problem. The Secretary of State said that we would ourselves expect an early reference to the budgetary problem in plenary session perhaps soon after lunch on Monday, perhaps on the understanding that there would then be further discussion away from plenary.

2. On substance, the Secretary of State said that people had been talking to us of a French proposal, to which the Presidency were apparently awaiting a UK reaction. He thought that the UK position had been made very clear in his discussions with Dumas at Luxembourg. We continued to believe that the negotiation could and should be completed on the basis of the Presidency Brussels text. The UK could not agree to further ad hoc years after 1984. If the negotiation were to be moved on to a different basis, ie on to a proportionate basis, the UK would require a higher rate of return than that so far suggested by the French. The other point was that it was not at all clear how the German problem would be dealt with on that different basis. Dumas intervened to say that he thought the FRG problem was "more or less in the future". The Secretary of State said that he thought it important to be clear about the FRG problem in the budgetary context. He thought that the UK approach, in the terms that he had just described it, had been made clear to Dumas. This was the basis on which the UK wished to move to a solution. We believed that agreement should be possible, which would then permit the re-launch of the Community. He asked whether Dumas had any thoughts on further steps?

3. Dumas said that, as we knew, he had been in touch with other delegations at Luxembourg, and it was clear that the Benelux countries and the FRG, and indeed the remainder of the Nine, were not disposed to move very much from their well known positions. Dumas said that, in his judgement, there was no possibility of agreement on the basis of what the Secretary of State had said on Tuesday. He asked whether the Secretary of State was suggesting a further meeting before the first plenary session at Fontainebleau. Was the Secretary of State proposing to arrive earlier? The Secretary of State said that he could do so. Dumas said that it depended on us. The

/Secretary

Secretary of State said that there was nothing of substance that he could add to what he had said to Dumas on Tuesday. Dumas said that he had had the impression that perhaps we would be able to look at something slightly different from the Brussels text, and dispensing with the idea of a threshold. The Secretary of State went over the ground again, emphasising that if the negotiation were to be moved on to a different basis, the UK would require a higher percentage rate of return than that so far suggested. He confirmed, in answer to Dumas' question about the rate of return, that it would have to be higher than 70%. Dumas commented that that would not be possible.

4. Dumas said that there were two main points of difference. On the question of ad hoc years, it was clear that the Nine would like two years, though perhaps the figure for the second year would not necessarily be the same. Secondly, for the period after 1986, a system would be acceptable. The FRG had wanted four more ad hoc years, but it now seemed that they might accept two years and then a system. As he, Dumas, had explained to the Secretary of State, the Presidency had been thinking about the advantages of a straight percentage basis. The Secretary of State repeated that we thought the system in the Presidency text as tabled at Brussels was, in our judgement, the best basis, and again said that if the negotiation were to be moved to a different basis, the UK would require a higher rate of return than that so far suggested. He did not want the Presidency to be in any doubt of our position.

5. Dumas suggested that the Secretary of State might consider getting in touch with him on arrival in Fontainebleau.

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