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SUMMARY RECORD OF A DISCUSSION AT A WORKING LUNCH GIVEN BY THE PRIME MINISTER FOR THE PRESIDENT OF THE EUROPEAN COMMISSION ON FRIDAY 16 MARCH 1984 AT 10 DOWNING STREET

Present:

Prime Minister	H.E. M. Gaston Thorn
Foreign and Commonwealth Secretary	M. Emile Noel
Sir Michael Butler	M. Alexander Schaub
Mr. Williamson	M. C. Pirzio-Biroli
Mr. Coles	

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After a brief discussion of the state of documentation for the European Council, and of progress in the Agricultural Council, the Prime Minister said that it appeared that the financial guideline which other Member States were now envisaging was not as strict as she would have liked. M. Thorn confirmed this. With regard to agriculture, he, unlike some other members of the Commission, agreed that it should grow at a rate less than that of own resources. The French Presidency seemed to accept this. The Prime Minister commented that the rate of growth in agricultural expenditure ought to be significantly less than the rate of growth of own resources. The Foreign and Commonwealth Secretary commented that it was fairly widely accepted that the agricultural growth rate should be less than that of own resources. Sir Michael Butler observed that unless the guidelines were formally incorporated in the budgetary procedures they would be ineffective. The Foreign and Commonwealth Secretary said that the conclusions of the European Council should not exclude the possibility of achieving this by Treaty amendment.

M. Thorn suggested that for the United Kingdom it was more important to have a strict guideline on agricultural spending than on other spending. The Prime Minister doubted this. Sir Michael Butler pointed out that the practice by which the Council sought to impose limits each year but then entered into an argument with the European Parliament was bad for the Community. The Foreign and

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Commonwealth Secretary stressed the need for a strict overall financial limit which was binding on all the three Community institutions.

With regard to own resources, the Prime Minister said that she would only contemplate an increase in the 1% VAT rate if her well known conditions were met. M. Thorn said that the Community was already spending at the rate of 1.1%. The conclusions of the Agricultural Council on milk and MCAs would take expenditure beyond 1.1%. Once spending reached 1.3%, the Commission would have to ask for a fresh increase because of the time necessary for ratification of the Council's decision. At present he thought the 1.3% limit would be reached in 1987. Did Member States really want to have another argument at that time?

The Prime Minister said that if it was true that the Community was already spending at the rate of 1.1%, the need for a strict financial guideline was even clearer.

She then stressed the need for guaranteed thresholds on all agricultural products. M. Thorn said that Chancellor Kohl had told him yesterday that he would not accept an agreement at the Council unless such thresholds were established.

On MCAs, the Germans had made it plain that they wished the Community to contribute to the cost of the scheme which they had advanced. The Commission had spoken in terms of a temporary and degressive contribution. Chancellor Kohl had stressed that a system which might come to an end in 1987 would be politically unacceptable. The Germans were seeking 150 million ecus in the first year, 100 million ecus in the second and a further amount thereafter which would be subject to discussion. The Commission had replied to the effect that the Council might offer a certain sum in the first two years following which the Commission would make a report. Chancellor Kohl had said that he could not discuss these matters openly in the European Council; for political reasons, he must avoid any public admission that he had accepted degressivity or a review after three years. He had further stressed that unless he could

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get satisfactory terms he would simply tell the French that there would be no change in the existing MCAs.

In response to a remark by the Foreign and Commonwealth Secretary, M. Thorn confirmed that the French had conceded the idea of a Community contribution to the German MCA scheme.

The Prime Minister then raised the problem of Budget imbalances. She agreed with President Mitterrand at Chequers that this was not an Anglo-French problem. The own resources system established in 1970 had become inequitable. Everybody wished to change it. We wished that change to embody an equitable system of financing the Community. There must be a limit on net contributions related to ability to pay. It was wrong to think in terms of a refund to Britain. We had to pay £120 million monthly mainly to finance other Member States. If there was not a reasonable limit on net contributions, there would be no increase in own resources. We were idealists and wanted to make the Community influential in the world. We sought an agreement at the Brussels Council but it had to be a long term agreement.

M. Thorn said that he understood the British problem. He recalled that M. Barre had once said that if he was the British Prime Minister he would want a radical change in the CAP and the method of financing the Community. But it had to be said that the original members of the Six took a different view of the benefits of the Community. It was noteworthy that, even if the figures advanced by other Member States were not what was desired, they were now all thinking in terms of a systematic solution to the British problem. Six months ago they tended to oppose any refund. They were now talking in terms of a refund of 1,000 million ecus. The Prime Minister said that she still found it impossible to believe that the response of other Member States to the problem was so inadequate. The Foreign and Commonwealth Secretary said that it was not a question of dealing with a British problem. The system now under discussion would apply across the board, would cover all net contributors, including Portugal if she reached that position after accession. Having described the necessary

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features of a satisfactory system, he said that the outcome would be judged in Britain by the effect of the system on the £120 million which we at present paid into the Community's account every month. The system would be judged further on how durable it was. With regard to the amount, the Prime Minister had said at Athens that we were prepared to contribute between 400 and 500 million ecus. If that offer were compared with the French offer of a 750 million ecu rebate, the size of the gap would be apparent. But it was important to realise that a satisfactory result for Britain would mean only a modest shift in the net benefits of each Member State while it would make a crucial difference to us.

M. Thorn said that he accepted the case for a systematic solution. The French had claimed that the Germans would not seek a limit for their net contribution. The Commission had thought this judgement mistaken and so it had proved. M. Dumas was now trying to settle this matter with the Germans.

Discussion then turned to a paper circulated by M. Thorn entitled "Correction of the British Budget Imbalance".

Sir Michael Butler said that the paper contained a number of points which we could not accept. It would be necessary on Monday to discuss the problem on the basis of the papers put forward by M. Thorn, the Presidency and Germany and synthesize these on Monday night for discussion on Tuesday.

The Prime Minister then invited Sir Michael Butler to give M. Thorn our comments on his paper.

Sir Michael Butler said that the title was not apt since nothing in the text suggested that the problem was exclusively British. M. Thorn said that he was ready to change this. The system would apply to all Member States.

With regard to paragraph 1, Sir Michael Butler said that we did not understand the description of the VAT share. Did it

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mean that the British share of the Community's VAT receipts was about 21% and that levies would be treated as though they were VAT (thus leaving us with a gap of 350 million ecus)?

M. Thorn confirmed that that was the meaning of his text.

Sir Michael Butler commented that in that case the English version, at any rate, would need to be changed to make it clear that levies were being treated as VAT. Perhaps a note should be attached specifying a percentage for each Member State.

M. Thorn said that he would produce a revised version of the paper for circulation in Brussels.

The Prime Minister said that the reference to allocated expenditure in paragraph 1 was unacceptable. Sir Michael Butler explained that this part of the paper arbitrarily removed 75 million ecus from our contribution - we could not justify this to Parliament.

Paragraph 2 of the paper was acceptable.

With regard to paragraph 3, Sir Michael Butler suggested that it should be revised to read "above the threshold a Member State benefiting from the arrangement would bear a percentage of the excess in proportion to its relative prosperity". The word "fraction" was particularly unfortunate since it implied a low level of compensation.

Paragraph 4 was satisfactory.

With regard to paragraph 5, the Prime Minister said that we could accept the text provided the word "decision" was added to the second sentence. M. Schaub appeared to accept this.

The Prime Minister said that paragraph 6 should be deleted. It was unclear and, insofar as it was comprehensible, it was unacceptable.

Sir Michael Butler then explained that we were prepared to accept that our contribution should be fixed on the basis of

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relative prosperity in a Community of Twelve. We were prepared to pay out rather more in 1984 and 1985. If contributions were fixed on the basis of a Community of Ten, the problems of moving later to a Community of Twelve would be very large.

On a separate point, the French were still basing their arguments on a refund related to the 1982 figures. This was not a sensible approach. Such a system had been forced on us in 1980 with the well known results in the next two years. The only sensible approach was to calculate what contributions would be in the first year of the system. The "refund approach" would turn the discussion into a trial of strength. But an approach based on thresholds, perhaps accompanied by a ticket-moderateur, would be expressed in terms of percentages and would not suggest victory or defeat so starkly.

The Prime Minister said that the paper produced by M. Thorn was probably a better basis for discussion than the paper which we expected to receive from the Presidency. M. Thorn said that the Commission would do more work on it.

In conclusion Sir Michael Butler asked M. Thorn to attempt to persuade President Mitterrand to promote a discussion of the problem of budgetary imbalances early on Monday so that a revised text could be distributed later that day.

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16 March 1984

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10 DOWNING STREET

From the Private Secretary

16 March 1984

Dear Sir,

Visit of M. Thorn

The President of the European Commission called on the Prime Minister today. I enclose a summary record of the conversation which took place at a working lunch.

I am copying this letter and enclosure to John Kerr (HM Treasury), Ivor Llewelyn (MAFF) and Richard Hatfield (Cabinet Office).

Yours ever

R.B. Bone

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

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