

Prime Minutes.

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Qz.03410

MR COLES *M 2.*
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*Anglo-German
Summit
Bonn.*

POST-STUTTGART NEGOTIATIONS: CONFIDENTIAL DISCUSSIONS WITH
THE FRENCH AND GERMANS

I should report that yesterday I had a confidential discussion in Paris with Monsieur Morel of the Elysee. I took the opportunity to float the idea that we might have a better chance of solving the problem of budget inequity if, while acknowledging our differences of principle, we also looked now at the figuring. I suggested that a possible solution might include:-

- a high limit for Germany, possibly higher than their current uncorrected net contribution, because the prime German requirement was that there should be some limit and that their budget contribution should be predictable;
- the net contribution of France and the United Kingdom at the outset should be broadly similar. It is interesting that, in reporting to Monsieur Attali and without prompting from me, Monsieur Morel suggested that the figures for a corrected net contribution for each country might be about 500 million ecu, ie not very different from our proposal in the safety net document.

2. The French were attracted to the idea that if we could reach some sort of understanding about the figures which would result from the final scheme, this would greatly improve the chances of obtaining an agreement of all member states (and help their objective of passing a greater part of the burden of our relief to the so-called "small rich" states).

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3. Any understanding between France, Germany and the United Kingdom needs very careful handling but I do believe that it would be in our interest to explore this further now with the French and with the Germans.

4. I should underline that this initiative does not mean any change in our existing proposal (the safety net setting a limit on net contributions). It is essential that we continue to state, both at the Anglo/German summit and elsewhere, that the net contribution is the best measurement of the budget inequity and that we need the scale of relief set out in our paper. The purpose of the separate discussions with France and Germany is to persuade them that the relief can be financed in a way which we could all accept. For this reason, we have sketched out in the attached note the line which the Prime Minister might wish to take with Chancellor Kohl on this point at the bilateral summit next week.

5. I am sending copies to Brian Fall (FCO), John Kerr (Treasury) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

4 November 1983

'Ship on Gun'

Savings measures difficult.

Within constitutional limits of new debt

30 million Gen are affected by savings measures

Deployment - 10 000 meetings

Inflation 3% - 4% - 5% - 6%

Unemployment - stopped rising. 2.2 million

[2.3 million expected

Better with below the forecast

GDP growth 1.2

Trade surplus 0.5

New year 2-3 - Sep. 2%

X points →

Domestic by the
industry.

Interest rate -

Management not dynamic
enough.

Especially big firms.

Wave of new firms

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POST-STUTTGART NEGOTIATIONS: THE BUDGET INEQUITY

Line to take with Chancellor Kohl on 8-9 November

We must try to move towards a budget solution before Athens. Otherwise the European Council risks getting bogged down.

2. I agreed with President Mitterrand that we should have bilateral talks with his people for this purpose. I think you and I should do the same. The aim would be that France, Germany and the United Kingdom should try to agree the broad outline of a solution which all three of us can work for at Athens.

3. The elements would be:

(i) the United Kingdom and France would make net contributions of about the same size;

(ii) Germany to have a limit too, but higher because you are richer.

Your proposal in the Preparatory Group has helped to get some movement into the negotiation. But the French (and others) don't like one part of it - the Commission's modulated VAT. And we don't like the other - using the Danish expenditure gap as the measure of the size of the problem.

4. Under your proposal, you would have a relatively low limit (1900-2200 million ecu) and a high exposure to growth in your uncorrected net contribution. I believe that you and we and the French could agree if you would accept a higher initial limit with a lower exposure to later growth.

5. Could we agree that officials should explore this bilaterally - and separately with the French. The three of us must not appear to gang up. But if we - the future three only net contributors - can agree, we shall certainly not fail to get our way.

4) (ii) Need control over
agricultural spending.

Issue of control

Improved control of
expenditure on agriculture.

& preclude industrial

(ii) International Trade

Don't launch another
argument with U.S. over
trade - Voluntary
agreement

Feb

①

- Stockholm - European
Court of Finance.

②

Good Budget Proposal

1) Want agreement
Fair share of the burden.

2) Their paper - based on
Payments gap
(Committee on modified VAT)

Net contribution.

= "in the paper
economic criterion)

→ a) K limit = 2% of G.P.
i.e. measures ability to
pay.

3) Fr. position.

About same -

FRG. Higher limit - lower growth.

[Your system - as from
contribution from - only 15%
back]

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