Mr Alexander

NOTE FOR RECORD

PREPARATION OF EUROPEAN COUNCIL: 31 MARCH-1 APRIL

1. British and French officials met in Paris on 14 March to discuss the next European Council. The French were represented by M Paye, Director-General for Economic Affairs at the Quai d'Orsay, by his Sous Directeur, M Bochet and by M Achard, Secretary General of the inter-ministerial Committee; the UK by Mr Franklin, Lord Bridges and Mr Hannay. The meeting was in two parts, from 5.30 pm-7.30 pm and over dinner.

2. M Paye began by regretting that the trilateral meeting with the Germans he had proposed had not been possible. He also regretted that rumours of such a trilateral had got around in Brussels and were causing trouble with the other partners. It was important to pick up the threads where they had been left last time he met Lord Bridges and Mr Franklin two weeks ago. These talks were entirely without commitment and represented the reflections of officials, not formal government positions. He feared things had got worse on the public front since the last meeting. Public opinion in France was restive. For the first time in the last three or four years the agricultural interest which was so politically important was nervous. The Government itself was beginning to believe that basic principles and not just money was at stake. The statement by Sir M Butler in Coreper on 13 March had been a hardening of the British position which seemed to have aroused fundamental objections among our other partners. This deterioration did not mean the present meeting was not useful; indeed it was all the more necessary.

3. Lord Bridges agreed the talks were without commitment. The earlier round had been useful. We too regretted a trilateral meeting had not been possible. As the European Council approached things were said which showed the intensity of theproblem and the strength of feelings. But we did not believe the problems had got more difficult to solve in the last two weeks. We believed a settlement of the budget problem at the European Council was desirable and we were working for that. What Sir M Butler had said at Coreper was not intended to be, nor was it in fact a new or harder position; it

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was merely a re-statement of our well known position and a response to the concern expressed by our partners, the French foremost among them, that the European Council must be well prepared. We were very ready to clarify our statement in Coreper but we would hope they would not regard it or describe it as a hardening of our position.

4. M Paye agreed there was nothing new in the substance of what Sir M Butler had said. It has been helpful to have it stated so clearly. It showed that what we wanted was a fundamental change in the Community system. It had been enlightening for our other partners to hear this. The French were willing to help and to demonstrate solidarity but not at the cost of changing the basic principles. The Butler presentation had set us on a collision course. There would be a crisis if we continued. France would not mind being isolated on an issue of principle - it would be a return to the time of the Soames affair when General de Gaulle had felt that Britain was not prepared to accept the Community rules but should be offered something different. That he believed was how President Giscard saw it. The present Brisith request was on the surface a financial one but was in fact an attack on the system of own resources, on the CAP and on Community preference with a forced shift of budgetary expenditure away from the CAP. He repeated again that France was ready to help. But any French government must carry the agricultural interest and this would be impossible if Community principles were attacked.

5. Lord Bridges said we could not accept the French interpretation of our attitude. We had no intention of damaging the fabric, institutions or principles of the Community in our search for a solution. If the French detected such an intention, they were wrong. But we did believe the present situation was harmful both for us and for the Community as a whole and that it was not the basic objective of the system to have these harmful results. We were not asking for help to solve our own economic problems but for an alleviation of the problems caused for us by the operation of the Community's

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financial arrangements. It was in everyone's interest that convergence between the Community's economies should be achieved. Mr Franklin said we had not challenged Community principles nor was there a fundamental change or hardening of our attitude. We noted that the French agreed that were were some excesses in Community policies which needed to be ironed our and that was what we were trying to do. We were looking for ways of doing it in a flexible spirit. As to the French agricultural interest, farmers meetings such as the recent ones in Paris were always rowdy but it was not wise or justifiable to make this link with the budget. We were not attacking the CAP. We had differences with the French about prices but we had those every year and every year a compromise was reached.

6. Turning then to the budget, M Paye said that since the last meeting French officials had been giving further thought to possible solutions. Without retracting from what he had said last time, their thinking had now developed as follows:

(i) Financial Mechanism. They had now seen the Commission's revised figures for 1979. The various criteria under the Dublin Mechanism seemed to produce rapidly fluctuating results. On the basis of the new figures and removal of all constraints they calculated our rebate for 1980 without restraints would now be 380 MUA, not 520 MUA as calculated on the earlier figures in November. If sterling rose or fell this would rapidly affect the operation of the financial mechanism. Experience had shown that the mechanism produced abrupt fluctuations and uncertain results. This would be unsatisfactory for all, including the UK. Moreover some of the constraints on the mechanism, which it was proposed to remove, related to points of Community principle, such as the untouchability of levies

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and duties. As a result they felt it might be better to leave the Financial Mechanism unamended but to give a guarantee that for a given period of years the rebate to the UK would fall within a fourchette. If the Mechanism produced a figure below the fourchette it would be made up, and vice versa. No sums were mentioned.

(ii) Supplementary Community expenditure in the UK. The French believed there should be a fixed sum allocated for a fixed number of years, the same amount being available each year. The expenditure should be based on an Article 235 regulation. The UK should produce projects which could be financed either partly or wholly by the Community after appropriate consultation. The present UK shopping list went too wide. Clear criteria would need to be spelled out. As of now the French were thinking of industrial re-structuring, fisheries, regional policy and oil as possible sectors for such expenditure. Like the Germans, but to a lesser extent, they did not want any explicit reference to coal although investment in coal might come under regional programmes.

(iii) Loans with interest rebates. Thinking on this had been triggered by Schmidt's reference to EMS but was not linked to a decision to join. France accepted Britain was going through a very difficult period economically. It was particularly hard to justify public spending cuts and at the same time to go on paying out large sums to the Community. But the UK was not a really poor country like Italy or

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Ireland, needing permanent help. We had oil. And, if the government's policies succeeded, our economy would strengthen. So loans were an appropriate way of helping. Article 108 of the EEC Treaty provided for mutual help of this sort. Loans would not be an ideal or a complete solution but they could help. Moreover the British government would have to show the public after the Brussels or Venice European Councils, an outcome that was presentable. A really substantial Community loan, say 3 billian UA with an interest rate subsidy element of 100 or 150 MUA could be useful in that context.

7. Lord Bridges and Mr Franklin commented as follows:

(i) Financial Mechanism. We accepted that results could be variable. We really wondered whether it was wise to re-open this issue again just before the European Council. We would think about the French suggestion. But we had seen much merit in the Commission proposal to remove the constraints from the mechanism. The new French idea involved an arbitrary time limitation for the improved system. We wanted a mechanism that would be available as long as it was needed although it would not of course be permanent, if, for example, our GNP reached the Community average.

(ii) Supplementary expenditure in the UK. French thinking was very similar to the Commission paper. M Achard confirmed that, apart from wanting a more restrictive definition of qualifying sectors, this was so. The figures

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the French had tentatively mentioned at the last meeting (700-800 MUA for (i) and (ii)) were nowhere near what the British government could accept. We accepted the need to compromise and that was why we had meade clear that we were ready to be modest net contributors.

(iii) Loans and Interest Rates Subsidies. Was the suggestion in any way linked to EMS? M Paye said it was not. We said we had never ruled out interest rate subsidies as such but only the subsidy element was a real contribution to a solution. Loans were not what we needed in the public expenditure context.

(iv) Duration. We could not accept the French fixed sum, fixed period approach. Re-structuring, which the French so disliked, would help us but would not ensure that our problems over an excessive net contribution never re-emerged. It was surely in everyone's interest to avoid coming back to this issue in a few years' time. We had put forward our ideas on objective criteria to deal with durability. Did the French have any of their own? How were we to avoid an annual squabble? M Paye said that at the end of the fixed period there would need to be a review to see where things were.

8. Discussion then turned to related issues:

(i) EMS. The French asked what was going on. We said that in the wake of Chancellor Schmidt's visit to London we were re-appraising our position. We could not predict the outcome. M Paye said there was no French government

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view on whether Britain should join the exchange rate mechanism. But officials were worried by the prospect. The pound was too high. At what level would we come in? There were great economic uncertainties both in the UK and internationally. The months ahead would be tense in the monetary field. The EMS would come under even greater strain if sterling was in it.

(ii) Energy. We explained we had had a preliminary glance at M Paye's idea of an oil field held in reserve in the North Sea for crisis situations. One serious problem was cost. It would involve huge capital expenditure which would have to be serviced. It was an economically unattractive way of proceeding. M Paye said was was not too surprised to hear his idea was thought to be absurd. In that case we must look for some other ideas. The French had not specifically mentioned energy in Coreper on 13 March because the Presidency had already put it on the European Council agenda. But it would need to be discussed in the context of the other matters being dealt with.

9. Over dinner the discussion mainly focussed on issues related to the budget. M Paye in general took the line that we would have to accept the same degree of specificity on such issues in the conclusions of the European Council as we wished to achieve on the budget. The vaguer the undertakings on the related issues, the vaguer what would be said on the budget. He also spoke at one point of looking for a two stage approach, with general conclusions being reached on all subjects at the next European Council and then parallel progress being made between April and June on the detailed implementation of these conclusions. Lord Bridges said we wished to make progress on all the subjects mentioned in the Dublin Communique but we did not

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think there was any justification for formal linkage; it was not helpful to present things in terms of a package deal.

10. On fish the French seemed not to have thought the matter through very carefully. They recognised that the talks between Mr Walker and M Le Theule were making steady, if unspectacular, progress; and that it would take some months to reach any sort of conclusion on a revised CFP. But they insisted on the need for some review of progress by the European Council and the giving of a fresh impulse to the work of the Fisheries Council. M Bochet spoke of

? the desirability of making ~~Parts~~ early progress on the Commission's structural proposals which could perhaps be so developed as to give the UK a disproportionate share of the expenditure and thus help with the budgetary problem. At the end of the discussion the French offered to let us have, on an entirely informal basis, a text setting out the sort of conclusions they would like the European Council to reach. Mr Franklin said we would study such a text. We too wanted to make progress on fish, but those directly involved seem to feel that several more months were needed. Access could not be considered apart from quotas and there were as yet no Commission proposals. It was important, however, to ensure that taking the issue up at the European Council helped rather than hindered progress. It was doubtful whether other Member States would agree to deal with the structural proposals outside a general settlement on the CFP; and some Member States (Denmark and Ireland in particular) would hardly welcome the UK getting the lion's share of structural expenditure.

11. On agricultural prices M Achard said that the French would want the European Council to reach brief, general conclusions on a few, main issues and then leave agricultural ministers to work out the details. The issues he mentioned were:

(i) General price level. The French were looking for 4% against the Commission's 2.4%.

(ii) Price hierarchy. The French would like a steer to give the highest rises to beef, the lowest to cereals (on which the Commission's

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proposals were too high).

(iii) Monetary compensatory amounts. They wanted 1 point off German MCA's.

(iv) Milk. No clear view on prices. No super levy but special tax on milk production over a certain quantity per hectare ie. on those using cereals to feed cows. Co-responsibility at Commission level and with exemptions proposed.

(v) Sugar. Commission proposals would do.

When it was suggested that all this was very detailed stuff to put to a European Council meeting, M Achard agreed and said it might be sufficient if the Council made it clear that decisions on agricultural prices would not be held up and would be taken expeditiously after the European Council. Mr Franklin said we saw no justification for price rises on products in surplus. We would like to see a higher co-responsibility levy on milk if there was no super levy; and only those exemptions in the existing levy.

12. There was no discussion on sheepmeat.

13. At the end of the meeting we reverted to the question of the budget and in particular to the problems of duration and dynamism. We explained our thinking in some detail, dealt with a number of misunderstandings and pressed above all the need to avoid the Community having to come back to the issue after a year or two. While the French continued to defend a fixed period, fixed sum approach they showed some signs of appreciating its weaknesses. They in particular seemed to take the point that their dislike of a fixed target for restructuring, based as it was on sensitivity about constraining the level of CAP spending, underlined the risks in a fixed period approach, implying as it would the re-emergence of an unacceptable net contribution situation for the UK at the end of the period. But they reiterated their concern that any system of objective criteria based on adjusting the net contribution of a Member State with below average GNP and below average receipts would produce a negative response from

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the French, who would have to support about 25% of the cost, on the grounds that such a system should in equity bear more heavily on Member States with above average GNP and above average receipts (Denmark, Netherlands, Luxembourg) than on those whose receipts were not above average (France). They also repeated their familiar objection that a system of the kind we were looking for, wishing the modification of the Community's existing modus operandi, was bound to be, or at least to appear, uncommunautaire.

cc:

PS
PS/LPS
PS/PUS
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ESSD
Mr Franklin, Cabinet Office
Mr Alexander, No 10
Mr Hancock, Treasury
Mr Andrews, MAFF
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