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RECORD of a Meeting with M. Jacques Wahl,
Secretary-General at

The Elysee Palace, Paris, on

TUESDAY, 25 MARCH 1980

PRESENT

M. Wahl

Sir Robert Armstrong

M. de Panafieu

Mr M D M Franklin

Sir Robert Armstrong said that the Prime Minister and the Foreign and Commonwealth Secretary were anxious that the problem of the United Kingdom net contribution to the Community Budget should not be seen as an Anglo-French issue. It was a problem which Britain wished to resolve with her partners within the Community. There had been some indications of fears among some of our partners that Britain was seeking to undermine the *acquis communautaire* and particularly the principle of "common resources" and the Common Agricultural Policy (CAP). The British Government had no wish or intention to do so, and was firmly committed to continuing British membership of the Community. The problem that we now faced with the net contribution to the Budget was not new or unexpected. It had been foreseen both by Britain and by the original Six members of the Community at the time of British entry. It had led to the assurances given by the Institutions of the Community during the negotiations for British entry. The British Government of the time had believed, and had been encouraged to believe, that the Community could be expected to develop during the transitional period in ways which would ensure that the problem did not emerge as the forecasts suggested. For various reasons - some of them no doubt the responsibility of the British, but some of them not - ~~the~~ matters had not developed as expected. Instead of dealing with the problem over a period of years, it now had to be dealt with as an immediate and acute problem. Sir Robert Armstrong explained why the economic and political situation in Britain required an early solution.

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M. Wahl said that he knew that the President of the French Republic would be glad to know, and would share, the Prime Minister's anxiety that the matter should not be seen as an Anglo-French problem. He noted the commendation given to the latest Commission paper by the Financial Secretary, Treasury, in the House of Commons the previous evening. He said that, when he had seen Mr. Whitmore, in the autumn, he had stressed the dangers of our insisting on "broad balance" and had said that the Budget problem would need to be solved in a wider framework involving the CAP, sheepmeat, fisheries and energy. The demand for "broad balance" appeared to be a demand for a "juste retour". M. Wahl and M. de Panafieu restated at some length the reasons why the concept of "juste retour" was inconsistent with the principles upon which the Community was based. Sir Robert Armstrong hoped that it was now clear that the British were not seeking a "juste retour", if that was defined as broad balance. The Prime Minister had indicated at the Dublin Council the readiness of the British Government to compromise though with limited room for manoeuvre; and she had indicated to Signor Cossiga her willingness to settle for a modest net contribution of 200 to 250 MEUA. Though Britain was seventh in the order of prosperity within the Community she was not seeking to be a net beneficiary; and the Prime Minister had made it clear that, if as a result of the success of the Government's economic policies, Britain's prosperity in relation to other members of the Community improved, she would be ready to see a larger net contribution. The problem we now faced was at the other extremity from "juste retour". Despite Britain's low place in the table of relative prosperity, she was now by far the largest net contributor to the Budget; indeed by 1980 she was the only other net contributor besides Germany, since, on present figures, France herself would become a small net beneficiary. What we had was a gross imbalance; and the cohesion of the Community would depend upon its ability to get rid of imbalances as great as that. We needed to find a solution which would deal with the immediate problem and give time for the structural adjustments which we had failed to make during the transitional period and which would deal with the problem on a permanent basis.

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M. Wahl again emphasised that the problem of the British contribution could be solved only in the context of dealing with other issues: we should be unsuccessful unless there was evidence of readiness to negotiate on other issues. If we asked for temporary alleviation because the previous Government had failed to take advantage of the transitional period, then something could be done to alleviate the problem over a further period, in order to give time for convergence. But certain principles had to be respected. "Own resources" were collected in order to finance common policies. Policies were devised by the Community for certain objectives, and financed out of the Community's resources. If the Community did not like the cost of the policies, that should be dealt with by changing the objectives, not by setting percentage limits on expenditure on particular policies. It would be impossible to apply the principle of "broad balance" to every member State: that was not how the Community worked.

Turning to the mechanisms in accordance with which a solution to the problem of the British contribution to the Budget might be constructed, M. Wahl said that the brakes on the Financial Mechanism agreed at Dublin in 1979 could be removed (at a later stage in the discussion M. de Panafieu seemed to be trying to claw that back by referring to "some of the brakes"). The paper recently put out by the Commission provided a basis on which the problem could be solved in accordance with Community principles. That included an ad hoc arrangement for the United Kingdom under Article 235. Any such arrangement would have to be temporary: it should be limited to three years. It was implied that even that was a concession: it was suggested that the ideal plan would be to make the timing of any such arrangement coincide with the expiry and review of the Dublin Financial Mechanism.

Sir Robert Armstrong said that this was not long enough. However long an arrangement of this kind lasted - and we had said that it should last as long as the problem lasted - when it came to an end there remained the problem of the gross imbalance in Community funding. A permanent solution

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to that problem had to be found. That would take time, and we needed a solution which would give time for the Community to develop a permanent solution. Moreover it would be impossible in domestic political terms to review the arrangements within three years. It was of the highest importance in political terms, not just for the British Government but for the Community, that whatever solution was arrived at should dispose of the problem for sufficiently long to avoid it becoming an issue in the next election in the United Kingdom.

M. Wahl said that France could not contemplate an indefinite arrangement: there must be an incentive by the United Kingdom to integrate its economy more closely with that of the Community. France had faced this problem at the time of her own entry, and had decided to integrate after entry rather than before.

Mr. Franklin said that the French knew just how rapidly our trade had already adjusted following British entry. That process would continue. But two-thirds of the problem arose from the fact that British receipts per head were less than half the Community average. The remedy for this lay not in British hands but with the Community. That was why we were urging the Community to set targets for the future distribution of the Budget. On the question of duration, M. Wahl added that if such a corrective device for the United Kingdom lasted too long there would be claims from other member States.

Sir Robert Armstrong and M. Wahl agreed that this was not an occasion for any negotiation about figures. M. Wahl said that the President was prepared to contemplate a solution within the framework of the latest Commission paper and in accordance with Community principles. ^{There} He was, however, ~~in~~ a "threshold" beyond which a solution would begin to call principles in question. M. Wahl did not disclose what that threshold might be.

Sir Robert Armstrong said that the Prime Minister had indicated at Dublin her wish for a genuine compromise, though with limited room for manoeuvre. She had subsequently indicated to Signor Cossiga the United Kingdom readiness to make a net contribution of 200 to 250 MEUA in 1980. He could not say that there was absolutely no more room for manoeuvre, but he

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would be misleading M. Wahl if he did not make it clear that no settlement would be possible at the sort of figures now being discussed. There was still a very large gap to close.

M. Wahl said that ^{the} firm public position taken by the Prime Minister before and at Dublin had made negotiation very difficult. He found fault with the weakness of the Commission in not having made precise proposals. This had lost time. The Commission should have been more courageous and outspoken. It should have produced precise proposals. ~~They~~ might have been acceptable neither to the British nor to the French, but at least they would have been a basis for discussion. In a sense the Italian political crisis was helpful because it avoided a meeting of the European Council which would have been insufficiently prepared and would have led to failure. But we were now on a "good track". The Commission's latest paper provided a framework. Something could be done for Britain under the heading of Community solidarity. Certain principles would need to be confirmed: the issues would then be figures and duration.

M. Wahl said that for France sheepmeat was a matter of principle. It could not have been the intention of the Treaty that there should be free movement without an organisation of the market. On CAP prices the issue seemed at first sight to be merely an issue on price levels; but the Treaty required that farmers should receive a fair income. The costs of French farmers had risen by nearly 15 per cent last year, and the prices of their products by only 6 per cent. This was unacceptable. France had proposed ways of financing the surpluses. Mr. Franklin said that in the view of the British Government there should be no price increase for products in surplus. This was in the end the only effective way of reducing surpluses. ~~He~~ He recognised the problems of farmers; but other sectors were also suffering from pressures on incomes and living standards and farmers could not expect to be exempt from economic pressures. He understood that France would like to see CAP price increases higher than those proposed by the Commission, but that the increases they had in mind were not as high as those of some other member

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States. M. Wahl concurred with that understanding. Mr. Frankling pointed out that, if CAP prices higher than those proposed by the Commission were agreed, that would still further aggravate the problem of the British Budget contribution.

On fisheries, Sir Robert Armstrong said that the British Government doubted whether it would be appropriate for the European Council to do much more than give a general encouragement to progress. Negotiations on the Common Fisheries Policy had been going smoothly and progress had been made, thanks to the co-operation between the British and French Ministers concerned. M. Wahl said that on this issue France was not pressing for quick results, but he thought that some of our other partners might press for more than Sir Robert Armstrong seemed to have in mind.

M. Wahl said that the President of the Republic thought that the European Council could not be drawn into too much detailed negotiation on any of these matters. There was only limited time for their meeting, and there was other business to discuss, including foreign affairs. Now that the meeting of the European Council had been delayed, it was important for progress to be made in advance of the meeting of the Council. The issues should be "cleaned of their technicalities" so that the European Council could be invited to give the final orientations and take clear decisions. The French would be ready to join with us in pressing the Council of Agriculture Ministers to make progress on prices and the Council of Finance Ministers to make progress on the Budget issue. If necessary there could be joint Councils; meetings of Finance and Foreign Ministers together and meetings of Agriculture and Foreign Ministers together, or even a joint meeting of Agriculture, Finance and Foreign Ministers. Progress on each issue in one Council could be made ad referendum to progress in another, or ad referendum to the European Council: France would understand if the United Kingdom wished to insist upon that. The Commission and the Presidency should be pressed to make "harmonised proposals". M. de Panafieu added that the French did not ask that agricultural prices should be fixed as a "préalable" but needed to be

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assured that the United Kingdom would not block agreement and that the fixing of prices would therefore be a "technical result".

Sir Robert Armstrong agreed upon the need for adequate preparation before the meeting of the European Council. The trouble was that other Councils of Ministers tended to hold back to await decisions on ^{key} ~~given~~ issues from the European Council. In the circumstances this was understandable. He pressed M. Wahl to say how this difficulty could be overcome and what arrangements should be made to ensure that progress was made on each of the issues in a co-ordinated manner. M. Wahl's replies did not add to what he had previously said ^{about the need} for progress to be made in the Council of Ministers between now and the April meeting of the European Council, save to say that there would no doubt be other contacts which would assist the process. M. de Panafieu referred to the contacts that there had been with M. Paye and M. Achard.

Sir Robert Armstrong said that he wished to consider what M. Wahl had said on procedure and he would of course be reporting the whole of the meeting to the Prime Minister. The British Government attached importance to the work of the Presidency in this period.

In conclusion Sir Robert Armstrong welcomed the opportunity for the discussion which he and M. Wahl had had on these matters. He had found it useful. He hoped that M. Wahl would not hesitate to follow this contact up by proposing further meetings of the same kind, if he thought that they would be useful; he, for his part, would not hesitate to do so. M. Wahl agreed that the meeting had been valuable and he would welcome further contacts on the same basis. He hoped that Sir Robert Armstrong and Mr. Franklin would forgive him for not offering them lunch as he would have liked to do. He regretted that he could not do so as their visit coincided with an official visit to the President of the Republic by the successor to Emperor Bokassa, and he had to be at the lunch that was being given on that occasion.

27th March 1980

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