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File 38G

10 DOWNING STREET

From the Private Secretary

2 March 1984

Dear Roger,

VISIT OF THE NETHERLANDS PRIME MINISTER

Mr. Lubbers had a working breakfast with the Prime Minister today. I enclose the record of the conversation.

I am sending copies of this letter and its enclosure to John Kerr (HM Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

Yours ever

John Coles.

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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RECORD OF A CONVERSATION AT A WORKING BREAKFAST GIVEN BY THE PRIME MINISTER FOR THE PRIME MINISTER OF THE NETHERLANDS AT 0815 ON FRIDAY, 2 MARCH 1984 AT 10 DOWNING STREET

Present:

Prime Minister	H.E. Mr. R.F.M. Lubbers
Foreign & Commonwealth Secretary	H.E. Mr. Hans van den Broek
Sir Crispin Tickell	H.E. The Netherlands Ambassador
Mr. D.F. Williamson	Dr. Posthumus Meyjes
Mr. A.J. Coles	

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The Prime Minister said that there was clearly a great deal of work to be done before the 19 March European Council. President Mitterrand would be visiting her on 5 March. Chancellor Kohl had come to London earlier in the week. He said that he and President Mitterrand were agreed that the target for EC milk production should be 97 m. tonnes and that this should be reached in two years.

He had also described the German proposal on MCAs - namely that Germany should move from +3 to -3 this year and that there should then be a further five point reduction matched by a national subsidy of 2,000 million Deutschmarks. The Chancellor had denied that at any rate the latter part of this scheme would have inflationary effects.

He had agreed with us that an increase of the VAT contribution to 1.4% was the maximum acceptable. We had stressed that even this was not acceptable unless our conditions were met. An equitable solution to the problem of budgetary contributions was for us an absolute sticking point. He had enquired whether we would accept an arrangement lasting for a period of years.

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She had stated that this was not acceptable. There could be no permanent increase in own resources if the budget solution were merely temporary.

Chancellor Kohl and we were united in opposing an oil and fats tax. We were both prepared to work with the United States for a voluntary arrangement on corn gluten.

The Foreign and Commonwealth Secretary added that, just like the Dutch, we took the view that it was necessary to put the Community's house in order before formal negotiations with the United States could begin.

Mr. van den Broek asked whether President Mitterrand intended to send a letter to all Member States stating the conclusions he had drawn from his bilateral contacts.
Mr. Williamson said that we understood that he would do nothing until his meeting with the Prime Minister next Monday.

Mr. Lubbers said that he noted that Chancellor Kohl and President Mitterrand wished to stabilise milk production at 97 m. tonnes in two years' time. But some Member States would seek exemptions. The Foreign and Commonwealth Secretary pointed out that the idea of moving to 97 m. tonnes in two phases caused difficulty since the production of each 1 million tonnes over the limit cost the Community about 235 million ecus. If we waited for two years, a sum of nearly 500 million ecus would have to be found. Mr. Lubbers said that he could possibly contemplate a two year adjustment provided there were no exemptions. But if there were exemptions it would be very difficult.

The Prime Minister said that Chancellor Kohl had also been very concerned about the potential surpluses of Mediterranean products. Mr. Lubbers said that he was also worried about beef. The guaranteed price was certainly too high at present.
Mr. van den Broek commented that the situation would become worse if milk consumption was cut because cattle would then be slaughtered.

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The Foreign and Commonwealth Secretary said that the Community needed a regime which applied to all products which were either in surplus or were likely to be in surplus or where the expense of sustaining production was rising. The Prime Minister commented that it was not clear that Chancellor Kohl or President Mitterrand had worked out precise methods of achieving their aims. Surpluses would have to be dealt with either by price adjustments or, in the case of milk, a super-levy. Mr. Lubbers suggested that a co-responsibility levy was another device which could be used. The Foreign and Commonwealth Secretary explained that this device was more akin to a tax. We did not favour it. Mr. Lubbers said that the Netherlands priority was to work through price reductions but they were prepared to accept a super-levy for milk. The Prime Minister said that we, too, could accept this for want of a better solution. But there must be no exceptions. The Foreign and Commonwealth Secretary observed that the Irish had won wide support for their position because the arrangements relating to milk were the only point in the Stuttgart package to which they attached major importance. The trouble was that if Ireland secured special treatment, Greece and others would demand it as well.

Reverting to the co-responsibility levy, Mr. Lubbers said that he regarded this as a form of price reduction rather than a tax. Sir Crispin Tickell said that the co-responsibility levy operated in a discriminatory fashion. Mr. Williamson pointed out that Greece and large parts of Italy and other areas were totally exempt from it. The Prime Minister said that we could not persuade British farmers to accept both a super-levy and a co-responsibility levy. Mr. Lubbers said that this was true of Dutch farmers as well. He was worried about the effect of the super-levy on productivity, but he would not block it.

The Prime Minister said that she could envisage some kind of subsidy to Ireland. But the means of solving the Irish problem must not distort the whole system. Mr. van den Broek

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said that it might be necessary to think in terms of a mix of instruments. The Foreign and Commonwealth Secretary asked whether the Dutch had precise views on how the Irish problem should be solved. Mr. van den Broek replied in the negative. He feared that Ireland would block all agreement if it did not get satisfaction.

Mr. Lubbers agreed that an oil and fats tax was unacceptable. With regard to corn gluten, the problem seemed to be the level at which stabilisation was set. Mr. Williamson said that the Commission proposed a reduction from present levels. We were inclined to prefer stabilisation at current levels.

Mr. Lubbers then reverted to Chancellor Kohl's ideas on MCAs. He asked whether we would prefer the three point reduction to be proportional or absolute. Mr. Williamson said that we had not taken a position, but he believed that we would prefer it to be proportional. Mr. Lubbers suggested that the risk of inflationary consequences could be offset by a low price settlement in the agricultural price fixing. The Prime Minister said that that would depend about agreement on the rate at which Member States could alter their green currencies. Mr. Williamson pointed out that the second phase of the German proposal - by which five points would be removed from German MCAs over a period of years as yet unspecified - would not be inflationary since Germany proposed to compensate its farmers by national aids. Dr. Meyjes said that he believed that France would in the end accept the German scheme.

Mr. Lubbers then asked whether there was an understanding between Germany and the United Kingdom about overall financial control. The Foreign and Commonwealth Secretary said that there was growing recognition, shared by France, of the need for overall control and specific control of agricultural expenditure. But when it came to specific proposals, that advanced by the Commission was not strong enough. We believed that any solution must be embodied in the Community's procedures in such a way as to bind the Council, the Commission and the European Parliament.

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Essentially, it would be necessary to lay down cash limits which all three institutions would respect - though it would probably be necessary to reserve for the Parliament some room for manoeuvre. It might be that this should be achieved by amendment of the Treaty, though we did not insist on this.

Mr. van den Broek said that President Mitterrand had told the Dutch that he did not exclude Treaty amendment, but it would be premature to talk about this before the European elections. Since any Treaty amendment would affect the powers of the Parliament, the subject was very delicate.

Mr. Lubbers asked whether, in addition to the institutional point, it was necessary to establish precise figures at the March European Council. The Foreign and Commonwealth Secretary replied that with regard to overall budgetary control, no-one envisaged setting precise figures at that stage. On controlling agricultural expenditure, some argued that this should expand at the same rate as own resources (we could not accept that), or at a lower rate or at a markedly lower rate. In response to a question from Mr. Lubbers, the Prime Minister said that the Council would have to fix a cash limit each year.

The Foreign and Commonwealth Secretary distinguished between three points. First, the Council would decide whether the own resources ceiling should be increased. Then, since no-one envisaged that the Community should immediately begin to spend up to the ceiling, there would have to be a budgetary procedure by which the Council decided on a cash limit each year. The third question was the relationship of the rate of growth of agricultural expenditure to the rate of growth in own resources. Mr. van den Broek said that the London formula which had used the words "lower than" was probably as much as could be achieved. The Prime Minister pointed out that "lower" included the concept of "markedly lower".

Reverting to the point made earlier by Mr. van den Broek, the Foreign and Commonwealth Secretary said that if it was not wise to envisage agreeing on a specific Treaty amendment at Brussels,

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it was important that any solution agreed there did not exclude a Treaty change later. Mr. van den Broek pointed out that various Member States rejected any idea of budgetary disciplines. It was politically impossible to get them to agree to a provision which besides imposing a discipline also affected the existing budgetary powers of the Parliament. It was necessary to move step by step. Mr. Williamson pointed out that obligatory expenditure could be controlled by regulation. But this was not true of non-obligatory expenditure. The Foreign and Commonwealth Secretary observed that if it were agreed at the Council that budgetary control must apply to all three institutions, this would pave the way to securing effective control of both types of expenditure. Mr. van den Broek said that it was not clear to him what we would be offering the European Parliament to persuade them to accept tighter control. The Foreign and Commonwealth Secretary said that we would be offering an increase in own resources.

Mr. Lubbers asked whether the Prime Minister had discussed with Chancellor Kohl the "British problem". The Prime Minister said that the description was inaccurate. The problem was how the European budget burden should be fairly shared. Mr. Lubbers had told her earlier that no-one in the Community had talked about equity until she had arrived on the scene. The Foreign and Commonwealth Secretary said that the Community needed a system which produced a fair distribution of the burden after enlargement. There was wide agreement that that system should be based on relative GDP, should operate on the receipt/revenue side and should be durable. The Prime Minister said that the new system must be part and parcel of the decision increasing own resources. She could not agree to any increase unless a fair and equitable system was produced. The Foreign and Commonwealth Secretary said that there was increasing agreement on the nature of the system but it was also important to ensure that the results produced by the system were equitable.

Following discussion of various ways of measuring the gap between contributions and receipts, the Prime Minister said that

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in political terms the only gap that mattered was between what one contributed and what one received. Mr. van den Broek said that he could not disagree more. The Prime Minister rejoined that he only disagreed because he did not have to pay the bill.

The Foreign and Commonwealth Secretary said that there was wide acceptance that it was necessary to take account of total expenditure. On the revenue side, we believed it essential to take account not just of VAT contributions but also of customs and levies. The political imperative was that the British Parliament should be persuaded to accept the result. Since 1978 the Commission had been producing figures which measured the whole gap. Parliament would therefore only be interested in the size of Britain's total contributions to the Community. The German proposal, based on the VAT gap, under-estimated our burden by an average of 300 million ecus a year.

We wished to be modest net contributors - though Parliament criticised even this position. We believed that in the first year of an enlarged Community, Britain should pay from 450 to 500 million ecus. The French idea that we should contribute 1200 million ecus (which Mr. van den Broek apparently supported) was unacceptable. This was based on the idea that we had settled for 750 million ecus at Stuttgart. But that came at the end of a period in respect of which we acknowledged that we had received more than we had expected to. France could pay about the same amount as Britain in the first year. And our system would produce a reasonable result for Portugal as well.
Mr. van den Broek said that he accepted that the resulting figures had to be acceptable to all parties including the United Kingdom. Mr. Lubbers suggested that the essential political point was that Britain and Germany should agree. For if the Germans stipulated that they were ready to pay a certain amount, the French and others would have to settle too. The Prime Minister commented that she was still concerned that people treated this as a problem between Britain, France and Germany. It was more fundamental than that. The present system was wrong and it would

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crack. It was insane for the Community to give more money to Denmark than to Bangladesh. Mr. Lubbers replied that he agreed that if a number of Member States thought the system unfair, it would crack. But the benefits of Community membership could not be calculated simply by measuring expenditure against revenue. The Prime Minister said that even if one took into account such matters as defence and the balance of trade in manufactures, Britain paid. The Foreign and Commonwealth Secretary said that every Member State could talk in terms of industrial deficits, food costs, defence costs, etc. But the inescapable fact was that our net transfer over the exchanges to the European Community was about 1.25 billion ecus which was considerably higher than our overseas aid programme. This was absurd.

Mr. Lubbers then said that he was considering the possibility of writing to his EC colleagues about transport policy. Perhaps there should be a joint British/Dutch letter. The Foreign and Commonwealth Secretary said that we agreed on the substance, but were not sure that a joint letter was the best technique.

Summing up this part of the discussion, the Prime Minister said that there was a long way to go before agreement. But she hoped she had made it clear what our sticking points were. Mr. Lubbers said that we had to make the best out of Brussels. There had to be a balance between putting pressure on people and increasing that pressure to the point where the Community was broken. The Prime Minister said that if we reached that point, the fault would not be hers. The treatment of Britain was totally unfair. Mr. van den Broek said that he accepted the need for a political solution. But what was fair in British eyes was not fair to the other Member States. If all stuck to their positions, there would be no agreement. The philosophical differences between us could not be bridged. We should look for a political solution. Mr. Lubbers said that the Netherlands could not accept a Community in which the yardstick of co-operation was the balance between money paid in and money received.

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He wanted a set of policies which produced equitable benefits. The Foreign and Commonwealth Secretary said that we also wanted this, as was clear from our attitude on liberalisation of services, on Esprit and on the Airbus.

Following a brief exchange on the situation in the Persian Gulf and the Lebanon, the discussion ended at 1015 hours.

A.J.C.

2 March 1984