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10 DOWNING STREET

From the Private Secretary

22 June 1984

Dear Roger,

Telephone Conversation between the Prime Minister and the Prime Minister of the Netherlands

Mr. Lubbers, the Prime Minister of the Netherlands, telephoned the Prime Minister this morning to give her his impressions following his meeting with President Mitterrand on 20 June.

Mr. Lubbers said that his general impression was that President Mitterrand was taking a very tough stance. He had said that he would make the following proposal on the British budget problem:

1984:	1000m ecu
1985:	1080m ecu
1986:	1080m ecu + X
and subsequent years	

X would be 60% of the increase in the British VAT share/expenditure share gap between 1985 and 1986. President Mitterrand claimed that this proposal was likely to be acceptable to other Member States.

Mr. Lubbers said that he had told President Mitterrand that he had the strong impression that the Prime Minister would prefer to stick to the system agreed in Brussels and that this was the Netherlands preference also though he did not rule out looking at other solutions. Mr. Lubbers had suggested that an alternative would be to propose a refund of 60% of the whole gap. /Although this is what he said it was clear subsequently that he meant in fact the VAT share/expenditure share gap./

Mr. Lubbers said that he had subsequently spoken on the telephone to Chancellor Kohl before the latter left for Hungary and had sought his opinion. Kohl did not seem to be aware of the French proposal though had reacted quite positively when it was described to him. Mr. Lubbers interposed that President Mitterrand had speculated that Chancellor Kohl would wish the FRG to continue to make a non-proportional contribution under the system which he

/ envisaged

envisaged. But Chancellor Kohl himself had said that if there was a system he would want a limit and that Germany would pay its share up to the limit. When asked where the limit would lie, he had replied that the fact of the limit was more important politically than the amount.

Mr. Lubbers said that he had spoken to M. Thorn this morning. The latter had been full of stories of different opinions and it was not at all clear what he wanted or how he saw the situation.

Summing up his impressions, Mr. Lubbers said that sticking to the original system negotiated in Brussels was the Dutch preference but it would not be easy. He was very worried about the hard line taken by President Mitterrand. At Brussels he had seemed ready for compromise: now he was very tough.

The Prime Minister said that this was very bad news and meant that the prospects for Fontainebleau were poor. Even on the system agreed in Brussels and with a reasonable base figure and threshold the UK would be paying a very substantial contribution to the Community. Under the sort of proposal envisaged by President Mitterrand the burden would be intolerable. At Dublin it had been agreed that the UK should receive two-thirds of the real gap. Now the most that seemed to be envisaged was 60% of a smaller gap. Moreover if the French were intending to move away from the system agreed in Brussels a whole new negotiation would be needed. It was hard to see how this could be done at Fontainebleau. There seemed to be a determination to make the UK pay a penalty for having joined the Community late despite what it brought to the Community and to the defence of Europe.

Mr. Lubbers asked what could be done. He had the impression that positions had not been very far apart in Brussels. The Prime Minister agreed that they had been close. She recalled that she had been prepared to accept 1,000m ecu for 1984 and a refund based on a gap smaller than the real one because she was fed up with endless rows on this subject. The only sensible course was to go on trying for the system. She could move a bit but not much from the figure she had proposed in Brussels. Mr. Lubbers said again how concerned he was by the uncompromising line taken by President Mitterrand. He had given the impression that the proposal he had described was the last offer he could make. If it was not accepted discussion would have to go on to other matters. The Prime Minister said this might just be normal French tactics of hardening their position just before an important meeting. Mr. Lubbers said he had the impression that it was more than bluff.

Mr. Lubbers then said that he would like to make an entirely personal proposal to the Prime Minister which he would not on any account wish to be quoted as his. This would be to start the system immediately, with no ad hoc years, and have a UK refund of two-thirds of the VAT share/expenditure share gap. The Prime Minister said that two-thirds would be too low since it was two-thirds of less than the real gap. Mr. Lubbers said that there would be advantage in going straight into the system without any ad hoc years.

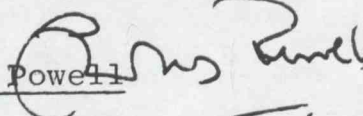
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He asked the Prime Minister to think it over. The Prime Minister thanked Mr. Lubbers for taking the trouble to give her his impressions.

I sending a copy of this letter to David Williamson (Cabinet Office) and David Peretz (HM Treasury).

Yours sincerely

C.D. Powell

Roger Bone, Esq.,
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