

SECOND SESSION: MORNING OF MONDAY 5 DECEMBER

B. Agriculture (I Continued)

1. Papandreou introduced the resumed discussion of agriculture by stating that the European Council was too large a group in which to achieve agreement on technical detail. Some matters would have to be left to the Commission. The basic idea was to agree on principles and take the political decisions. This called for a willingness to negotiate and to compromise. If that were not possible the consequences for the Community would be serious.

2. He had the impression that many had been close to accepting the Presidency's proposal the previous evening. He summarised the state of discussion as follows:

- (a) Milk: The Presidency's proposal of a range of 98-100 million tonnes looked broadly acceptable. It was also agreed that there needed to be a flexible view on the reference year. The Commission could be asked to take account of individual countries' particularities in choosing a base year. It was agreed that Ireland had to be specially treated. Italy and Greece had a separate problem being heavy importers and preferring not to cut production.
- (b) Cereals: Here there was a proposal to stabilise substitutes of imports.
- (c) Rationalisation and Savings: Everyone agreed on the need to limit waste. It was agreed to reduce subsidies by 300-500 mecu. The Commission could do this job better than the European Council. They should take account of the discussion.
- (d) Oils and Fats Tax: This had aroused strong reactions but the Presidency would like to insist on it. This might call for negotiation with the US: it could not be introduced in a hostile fashion.
- (e) MCAs, on which he invited Kohl to speak.

3. The Prime Minister challenged much of his summary. She was not prepared to compromise on any aspect if agreement were not reached on everything. She needed to have texts before she was prepared to negotiate further. Papandreou agreed that it was necessary to try to cover all the issues before agreement was reached on anything. The Prime Minister corrected him. She had meant that there would be no deals on any aspect unless there were agreement on all. She was not prepared to accept any fudges. Papandreou said that that went for everyone. He confirmed (to Martens) that the Presidency would table a new text in the afternoon.

4. Genscher then said that the Germans had objected to some points in the Presidency compromise. There was in particular a need for an overall price and quota agreement. Lubbers agreed. He added that savings on other products of 300-500 mecu was much too low. He wanted agreement on the principles and not on figures.

5. Thorn said that the Commission could not go to work on the basis of the discussion so far. Without a compromise between delegations the Commission could not make proposals. Furthermore it could not simply do a secretariat job. He endorsed Lubbers' view that savings of 300-500 mecu were too low. Agreement that a co-responsibility levy should be applied on production over some figure in the 98-100 million tonne range was too vague. Furthermore the subject could not be left to Agriculture Ministers: the European Council must determine the figures.

/6. Schlueter

6. Schlueter asserted that there was no agreement. Savings of 300-500 million ecu would be too low. A substantially higher figure should be achieved. The Prime Minister reminded the Presidency that on milk price policy was vital and that this had been left out of the Presidency compromise. The co-responsibility levy increase was not on: the levy was nothing more than a tax. Lubbers said that thresholds were required on all products. He suggested that savings outside the milk sector should be of the same order as on milk.

7. Andreotti reverted to his insistence that spending which represented compensation for concessions made to third countries under the common commercial policy should not be touched (eg to the Maghreb on citrus). He thought Lubbers' formula on savings was too simple: it did not represent social justice. Papandreou was pleased to hear this. Savings beyond 300-500 mecu might be needed, but it would clearly be necessary to take account of the need for different treatment of northern and Mediterranean products. He suggested examining reducing subsidies on other products such as butter. He added that the oils and fats tax could raise a lot of revenue. The Prime Minister reminded him that she was not alone in opposing it: the Dutch, Danes and Germans did so too. Papandreou acknowledged that.

8. Turning to MCAs Genscher stressed the need to find a solution. For the future it would be necessary to ensure that there were no positive MCAs. If that was accepted it would be possible to persuade German farmers to accept measures which would deal with existing MCAs. This would give some price advantage to others. Secondly there should be gradual removal of positive MCAs. Thirdly some compensation would be needed for German farmers through national measures, which would change Community law and which the Community would have to finance to some extent. But the FRG could only go along with all this if it was agreed that there would be no positive MCAs in the future. His position was an advance on the earlier German position: it represented genuine movement.

9. Papandreou said that Genscher's position was very close to the Presidency's proposals. Could Genscher propose some time limit for abolishing the existing positive MCAs? Genscher thought that, if the rest of the German proposals were adopted, four years might be correct.

10. Ellemann-Jensen thought that if Genscher meant that if part of the MCAs would become negative MCAs that would simply mean passing the buck. This would place a new burden on the rest of the Community. Genscher replied that the change from positive to negative MCAs would confer benefits on farmers. The burden would only be partially borne by the Community. Lubbers thought that Genscher's proposal was constructive, but three years would be better than four. He also suggested a freeze in Deutschemark prices. Andreotti said that he had originally suggested two years but seemed to accept three. An automatic system with clear dates and rules was needed. Schlueter thought that for the future the gentleman's agreement would suffice. The fact remained that the German proposals would work against a modest price policy. The currency changes involved would raise prices. Passing the buck would ultimately require export refunds to be adjusted, ie increased. He asked for a paper showing the effects on prices, export restrictions, etc.

11. Papandreou said that the Presidency would produce a new text on this by the afternoon. But Ortoli said that there were only two ways to get rid of MCAs:

- (a) not to create any through a proper monetary and exchange rate policy;
- (b) through price policy.

If it was desired to get rid of positive MCAs (which would be good because it would simplify matters) there would still have to remain the same price

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difference simply expressed as a negative MCA. This would yield some advantages, eg a green ecu. But it would then be necessary to get rid of negative MCAs. If that were done in one step there would have to be a very large price increase. There would clearly need to be a procedure for gradual dismantling instead. For existing MCAs efforts were being made to follow the gentleman's agreement and that should continue. Turning to the German proposal for compensatory aid, he thought that the theoretical answer was to reduce German prices, because they were higher than those of others. But he acknowledged that a cut in nominal prices would be very difficult. Even so he did not see why aid should be given unless prices were cut. The Presidency proposals did not cut real farm prices so there was no case for aid.

12. Mitterrand said that he disagreed with the Germans on a number of points. He quite agreed that the dismantling of existing MCAs should be considered in one way or another. As for future MCAs France intended to reduce the inflationary gap between France and the Federal Republic. It could be reduced so far that the new MCAs would have little effect and a solution could then be found through prices. The solution proposed could mean that there were going to be new MCAs so that he would be obliged to promise a devaluation within the next few months. He was not prepared to do that and to put aside the whole economic policy of the last 18 months. The proposal would merely set up a Mark zone which would be no more acceptable than linking the Israeli shekel to the US Dollar.

13. Martens believed that the Commission's proposal was a good starting point. On Genscher's ideas he said that a system would be needed whereby the disadvantages were spread to the strong as well as to the weak. He could accept the phasing out of existing MCAs in three years. Aids should be kept to a minimum as should the Community contribution to them. Mitterrand added that some specific aspects of the MCAs were not acceptable anyway, eg application to pigmeat.

14. Papandreou said that the discussion had been valuable and asked Varfis what he would now produce. Varfis promised a document by the afternoon on agriculture and the budgetary problems if they were discussed. On agriculture only a few key points would be covered as the Presidency had proposed.

C. Budgetary Discipline

1. Papandreou reminded the European Council that the Stuttgart declaration had mentioned a "strict" guideline. It had been clear that anything "legally binding" would require treaty treatment, so he suggested confining the discussion to a "strict" guideline. All delegations attached importance to this issue. Decisions on the CAP related to it. There were several proposals on the table, some particularly relating to agriculture, some of general application. He suggested a tour de table, but no one volunteered to speak, so he continued by suggesting the need to distinguish clearly between promoting efficiency or absence of waste and minimising the resources needed to achieve a given goal. All would agree with the first. But the Presidency did not agree with the second. Cutting down levels of expenditure did not mean that waste was avoided. The Presidency did not endorse the view that one should determine revenues and in the light of that arrange expenditure within the revenue limit. What was needed was to decide policies and targets and then raise the revenues needed to achieve them. Of course that could not be independent of cost, but revenue could not determine expenditure.
2. Lubbers thought that the Prime Minister would wish to speak first, but the Prime Minister declined. Lubbers therefore endorsed the Commission's proposal, subject to the changes suggested by the Netherlands. The French proposal also contained a number of attractive elements, but he urged care on the institutional aspects, especially as concerned the European Parliament.
3. The Prime Minister recalled that the Stuttgart declaration's reference to a strict guideline did not exclude something legally binding. That was for discussion. She, like Lubbers, welcomed the French proposal. The Presidency text was inadequate. The French text was a good basis on which to work. Referring to Papandreou's introductory remarks she stressed that finance must determine expenditure and not vice versa. That was what was done nationally and internationally. She suggested that the European Council work on the French text which she would like to see strengthened in two ways. First there had to be special arrangements for agriculture because it took more than 60% of the budget. There had been rapid growth over recent years. Agriculture Ministers must know in advance the resources available before they decided on prices. The text should specify that the rate of increase in agricultural spending should be markedly less than that of own resources on the basis of a three-year moving average. Furthermore, it needed to be legally binding guideline. If there was no agreement on this there was no hope of an increase in own resources. She tabled two additions to the French text. She would not be satisfied with anything vague. "Strict" meant strict and binding. Papandreou said that the issue was important and difficult. He disputed the thesis that revenue should be the determinant. They existed only to serve the policy objectives of the Community. To illustrate his point he referred to what happened when a country went to war and to the health service in the UK, which was highly socialised and could not be arbitrarily limited. But he acknowledged it was legitimate to minimise the resources needed to achieve given objectives.
4. Schlueter suggested taking the Presidency text (pp 23 and 24) as a basis for discussion. But Kohl said that he would support the compromise which seemed to be emerging between the Commission and French proposals and the arguments put forward by the Prime Minister. However he cautioned against diminishing the role of the European Parliament, especially immediately before their elections. The debate so far had placed too much emphasis on governments and not enough on Parliamentary tradition.
5. Andreotti preferred to take the Commission's text as the basis for discussion. The Prime Minister was asking for rigour; this could not imply spending nothing. As the Prime Minister had said, the aim was to relaunch the Community. That pre-supposed a more open-minded attitude. Institutional factors must also be borne in mind. Care should be taken not to innovate, but to work within the Treaty on the basis of texts from the Commission.

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If some of the suggestions on the table were accepted, the Community would revert to being an inter-governmental system. Taking up Kohl's remarks he pointed out that there were three institutions involved: the Council, the Parliament and the Commission. The Parliament was creating a different world in contrast to the accountancy approach of some member states. Any agreement must incorporate words which paid tribute to the work done by and the attitudes emerging from the Parliament. FitzGerald agreed with Andreotti and Kohl about the Parliament. The French approach was interesting, but needed further study. He sympathised with the Presidency's approach to the relationship between expenditure and revenue. Werner preferred the Commission approach. He was not opposed to possible institutional improvements, a subject he would comment on later. Martens urged that any plan for putting the Community's house in order must be within the framework of existing institutions and not upset the institutional balance.

6. Chevysson claimed that the French proposal respected the role of the European Parliament and the existing institutional arrangements. It was in line with the Commission's ideas: its effect would be felt upstream from the annual budget exercise. France opposed any legally binding rules or regulations. Thorn advised against tampering with the Community's institutions or changing the budget procedure. The French proposal had already disturbed the European Parliament. Lack of financial discipline in the past had been attributable to the Council's actions. The agreement reached in 1975 had provided for special procedures but these had become a dead letter. The Commission's proposal had been well thought through: the Council could add to its own rules but should not try to change the Treaty. The French proposal would not be workable. He doubted whether it would respect the difference between obligatory and non-obligatory expenditure. Room for manoeuvre below the reference framework would be needed. In that case a change in Article 203 (EEC) would be required. The last sentence of the second paragraph was not workable: the Commission had to propose a budget without regard to the factors in that paragraph. The provision of a reserve was out of line with allowable procedures. The Council could not decide this unilaterally. The last sentence of the third paragraph was also in conflict with Parliament's right to reject the budget. On the other hand the Commission would be able to accept the Dutch amendments to its own proposal.

7. Varfis said that the French text had not been discussed in detail and did raise institutional difficulties, especially with the Parliament. The Presidency's proposal had been drafted without reference to the French document. Papandreou tried to conclude that the issue was not ripe for decision. But the Prime Minister said that her proposals could be inserted into any existing text, not only the French one. For her strict financial control was vital. As Thorn had pointed out it was the way in which the Council had acted in the past which had caused the trouble. She was not prepared to allow things to go on that way. Strict financial control was needed. This had to be embodied in the budgetary procedures, whether in legally binding form or not. The same applied to the guideline for agricultural expenditure. (The Prime Minister read out the text she had earlier tabled.) She suggested that the Secretariat should draft a text covering a strict and effective guideline. Genscher supported the Prime Minister, recalling the Stuttgart declaration. The Germans favoured a combination of the Commission and French proposals. It would be perfectly possible to take account of Parliament's sensitivities.

8. Martens could accept the UK proposal that agricultural spending over three years should rise at a rate lower than the rate of growth of own resources. He could accept multi-annual programming, the involvement of Finance Ministers and three-year forward planning. But it was necessary also to stress that this was a Community of law, bound by the Treaty. Lubbers said that the Community needed rules as rigid as possible. He agreed with the Prime Minister: only an institutional limit would be effective. There was no reason not to go for strictness so long as institutional powers were respected. He recommended amending the text as far as possible along the lines suggested by the Prime Minister.

9. Papandreou said that the agricultural economy was extremely important. One could not take decisions which disregarded that. He asked the Secretariat to draw up a draft.

D. Budgetary Imbalances

1. Papandreou said that the Presidency's proposals were an attempt to address the British problem in the form of a general rule. The matter was complex and he invited Varfis to explain. Varfis said that a member state would be entitled to a minimum share of Community expenditure through the budget. This level would be set by reference to GDP shares and GDP per head. This was important to allow the system to produce the desired result. Papandreou claimed that the Presidency system dealt with three questions: how to calculate the burden, how to pay the compensation, and how to distribute the burden of financing.

2. The Prime Minister pointed out that the issue was not only a British problem. It now involved the UK and Germany; on enlargement there would be three net contributors. It was no longer a matter of looking for a one-year solution but rather for a long-term solution which would be fair to all. The Special Council had made progress towards a consensus on some important points, some of which emerged from the Presidency text:

- (a) compensation should be deducted from the normal VAT share of the member state concerned for the budgetary year following that for which the correction is made (point (ii));
- (b) the solution should be an integral part of the new decision on own resources (point (iv));
- (c) a threshold or limit should be established calculated in relation to GDP beyond which a member state should be compensated (which seemed to emerge if a little obscurely from point (i)).

What had not yet been agreed was how to measure the size of the burden. The real gap would have to be defined. She proposed that sub-paragraph (i) might be a good basis for discussion if it were amended to read "calculation of compensation as the difference between the actual flow of expenditure into a member state and its share of own resources. The arrangement should set appropriate limits based on GDP and relative prosperity (GDP per capita)." She also suggested the addition to sub-paragraph (iv) of a reference to the system applying in respect of 1984.

3. Lubbers said that his approach differed fundamentally. He objected to a system which calculated net advantages and disadvantages. He agreed that there needed to be a structural formula, but it should not just apply to the UK. It would be a fundamental error to claim that it was unfair if the consequences of various Community policies differed from what was expected. In the Netherlands he had to deal with a budget which did not refer to particular groups' incomes. He was however prepared to work on a structural solution for the British problem. He preferred the Presidency's formula, but wanted compensation on the expenditure side if possible, or at least in part.

4. Genscher was pleased that the Germans' proposals were to some extent reflected in the Presidency's paper. There should be a lasting mechanism. The difference between GDP share and share in Community expenditure was the right measure, the FRG wanted a certain upper limit to its burden so that the risks were not incalculable; and the limit should be subtracted from VAT shares and not financed by supplementary expenditure. The FRG preferred this alternative: they did not consider the Presidency text was right.

5. Schlueter thought the Presidency text an appropriate device for solving the British and German problems, but it must be financed by normal VAT shares. Martens agreed with Lubbers on the principles. He could accept (a) and (b) of the Presidency text, but not all the details of the Presidency proposal. Any durable system should clearly be exceptional and of very limited application. The GDP share basis was unsatisfactory since it was affected by exchange rate changes. He could not accept compensation for excess contributions, but he could accept compensation being paid on the revenue and expenditure side together in the following year. The corrective mechanism should be financed by all member states on the basis of normal VAT shares. He could accept a

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system combining modulated VAT and supplementary expenditure. But certain kinds of expenditure should be excluded from the measurement of the gap to be corrected: agricultural expenditure should not be geographically apportioned. The Prime Minister said that she found Martens' approach confusing. She reiterated the need to deal with the real gap and defended the structure of the Presidency's proposal. Werner thought that the source of the problem was the uneven development of the Community's policies. While the Community awaited the re-structuring of its policies it was necessary to introduce a temporary solution. But this must be related to the source of the problems and must be degressive in an automatic way. A corrective mechanism was needed. Luxembourg had suggested ways in which the Commission's modulated VAT could be linked with the re-structuring of the Community.

6. Andreotti claimed that Italy suffered more than the budgetary tables showed. Other member states had special benefits, eg the UK's right to purchase from New Zealand. He concluded that a mixed system was required. It should certainly retain the reference to per capita expenditure. On that basis Italy was the lowest. It should also take account of the degree of prosperity. The problems of the prosperous could not be solved at the expense of the less prosperous. FitzGerald accepted Andreotti's arguments. The Presidency's proposal was anomalous because increasing prosperity would bring increased compensation. Otherwise he could accept the Presidency proposal. Varfis said that the GDP point had been made before but was not true.

7. Mitterrand wanted to repeat a point he had made the previous day. The Community came together by virtue of a contract signed by six countries in Rome. Others had joined the same contract with transitional measures. That could not be ignored. Otherwise it would be necessary to produce a new Treaty. The Treaty of Rome excluded the juste retour. But that was at the heart of the UK position. The problem could not be solved by attacking the CAP and trying to hive off agricultural support to member states. The effect of other transfers could not be ignored. France was crossing the threshold to become/net contributor but refused to use that argument in its own favour. When the UK joined the Community transitional measures had been arranged. They were now in the past, but the basis of the UK case was that those measures continued: they did de facto. The 1980 agreements should never have been signed. The transitional measures should simply have been extended. That is what in a strange way happened. The UK had now singled out for discussion the agricultural policy and the UK's net contribution. The current discussion was an admirable outcome for British diplomacy, which he admired. Because resources were running out others were saying that the British approach should be accepted. This would mean watering down the Treaty itself. Lubbers had pointed to the dangers of that. The Community did not require southern countries to be self-sufficient in milk nor Denmark in wine. The UK's proposal on the budget had originally been for 7 years. France had wanted a shorter period than that, but had been prepared to accept an interim period. France had been prepared to help. As the issue took up a day of each European Council they were driven to accept that view. But he was not prepared to amend the Treaty. The debate could not be avoided. The Presidency proposals seemed on the face of things very practical but they were unintelligible and algebraic. In the past this approach had usually produced the wrong result, such as the UK getting 1 billion ecu too much. These mistakes must be spotted and stopped. It was wrong that fatigue normally caused people to give way. The issue was not simply pleasing Mrs Thatcher. He was always glad to listen to her - with a little bit of irritation perhaps. But still it was a source of pleasure.

8. It was quite out of the question to base a system on net balances. He would not refuse an act of solidarity towards the UK and Germany, but he was not prepared to accept a conclusion contrary to the Treaty. Since his approach was vague people might think he was giving way. He was not. He was content to go on arguing from year to year. He recognised that this would poison the system. But so be it. On the other hand he did not want to perpetuate the doubt. He would not continue, since he might contradict himself. It might

be very interesting to discuss a system, but would it be logical? How long ought it to last? He could accept one year or go as far as two. But he could not accept any burden on a lasting basis. If he did all the rules would have been broken.

9. Mitterrand asserted that the discussion merely humiliated the European Council with matters which should be left to experts. He concluded that he must reject all proposals except the continuation from one year to the next of the arrangements granted to the UK in 1972 - no more than that.

10. Varfis said that it was true that the Presidency had tried to put forward a compromise. They had not gone for a mixed system, as they thought a simple system better. All other systems would be arbitrary. So they had chosen to include all expenditure with a special arrangement only for administrative expenditure. If they had gone beyond that it would be necessary to take account of all other factors, and that could not be done.

11. Genscher said that Germany was the largest contributor to the budget and intended to remain so. It did not intend to be the only member with an unlimited contribution. They had proposed a two-sided mechanism. If the Germans were to remain net contributors they could not contribute to the UK compensation. Schlueter preferred the Presidency's approach. The German refund problem could be dealt with by choosing an appropriate financing key. Papandreou asked whether the Presidency proposal did not deal with the German problem, but Genscher replied that it did not.

12. Lubbers rejected any modulated scale of financing. The Germans said that they wished to limit their contribution to the Community. On the basis of the Treaty of Rome he would advise against that. If that was to be done then it should be done in full respect for the Treaty.

13. The Prime Minister said that if the problem was to be solved only for one year then a lot of work could be saved. But if it was to be durable there needed to be a system. The UK bore a double burden: within the budget as well as outside it. Italy and Greece also had non-budgetary burdens. She restated the basic facts about the scale of the UK's burden, comparing it with total UK aid to the third world. All the preparatory work for this discussion had assumed that the intention was to seek a solution for more than one year.

14. Up to now there had been only two major net contributors: Germany and the UK. If it had not been for the correction which had been agreed year by year, each would have paid about 2000 mecus a year and with an open-ended exposure to pay more as the budget rose. With enlargement and other factors France was now becoming a net contributor. All other member states (including several of the most prosperous) would have been substantial net beneficiaries. A system producing these results would not stand up for the future. The financing burden must be more evenly spread.

15. Germany had said that she was willing to continue to be a major contributor provided that there was a limit to her contribution at or about the level of last year. The UK was prepared to remain a modest net contributor, with a contribution between 400-500 mecus - a very substantial contribution for a member state of below average prosperity which also carried a substantial net burden outside the budget. If the UK's safety net had been applied in 1982, the figures circulated by the Commission showed Germany with a limit of 2107, UK with a limit of 440 and France contributing over 700. All the other seven member states would have remained substantial net beneficiaries. In practice Germany contributed rather over 2300 mecus in 1982, and she assumed that Chancellor Kohl could regard this as acceptable. A fair solution for Britain and France would be for them both to make broadly similar contributions - say 400 to 500 mecus. She proposed that officials should work up a durable mechanism or mechanisms - on the basis of the 1982 figures - which would yield the result she had described and continue to give an equitable result in future years.



16. Gensch reverted to the German proposal for effecting compensation by combining two mechanisms. He could also accept the Danish approach plus the Commission's modulated VAT. Perhaps it would be possible to take account of the figures mentioned by the Prime Minister. Lubbers said that he could not accept the Prime Minister's approach. The scale of compensation was quite unjustified and in conflict with the rules of the Community. Martens said that he could not accept a flat rate contribution. The Prime Minister explained that she was not suggesting flat rate compensation. She had merely illustrated how the figures might work out on the basis of the Presidency's principles as modified in the way she had suggested.

17. Papandreou asserted that duration was critical. Mitterrand said that the concept "durable" must be expressed as a fixed period of years. Schlueter claimed to see light at the end of the tunnel. The proposals in the Presidency text could form the basis of a long-term solution. The Prime Minister said that the need for a lasting solution had been at the heart of the Stuttgart discussion. This was taken up in sub-paragraphs (a) and (c.iv) of the Presidency text. Papandreou then said that he did not understand the Prime Minister's figures. The Prime Minister repeated and explained them. Papandreou suggested it might be better to revert to the subject when increasing own resources was discussed. The Prime Minister objected. Papandreou suspended the discussion for lunch, saying that he saw rays of light.

EUROPEAN COUNCIL, ATHENS, 4-6 DECEMBER 1983

INFORMAL RECORD

THIRD SESSION: AFTERNOON OF MONDAY 5 DECEMBER

Budget Imbalances (Continued)

1. After announcing that a new compromise on agriculture would shortly be tabled Papandreu opened the resumed discussion by pointing out that any new arrangement would need to be accepted by national parliaments. If it were accepted it would operate from 1 January 1986 in combination with an increase in own resources, and there would therefore need to be an ad hoc arrangement for 1984 and 1985. What should that be? If the new arrangement started with 1986 there remained a clear difference of view between the UK and France: the UK wanted an indefinite duration, and France was not prepared to accept that. He thought it would be sufficient if the new arrangement applied up to the year 1990.
2. After a long pause, Genscher repeated the proposal he had made earlier, but with the major difference that the gap to be corrected should be the difference between VAT shares and expenditure shares, and that compensation beyond the limits should be partial. He suggested that officials be asked to work up a scheme. Schlueter however claimed that that would be a step back towards a solution based on net contributions. This was especially so because in future VAT revenue would grow as a proportion of own resources and would come close to being the full net contribution.
3. The Prime Minister agreed with Genscher except on the definition of the gap. The gap to be corrected had to be the full own resources gap. The arrangement had to last as long as the own resources increase which was proposed. There could not be a separate argument about 1984 and 1985. Any new arrangement must be effective from 1984. Schlueter and Lubbers suggested reverting to the Presidency paper, but Papandreu said that there was clearly an impasse, and it would be necessary to return to the subject later. Perhaps the best time was when Heads of Government and Foreign Ministers came together again after dinner. They could stay together until they had produced results. Martens thought the Presidency text more likely to yield results. Varfis however thought that Genscher's proposals were useful and would not require too much change to the Presidency's proposals. Lubbers thought that the Council was getting lost in technicality. (Genscher's proposal was circulated.) The Secretary of State said that all the options could be accommodated within the framework of the Presidency text. There was growing agreement on (c)(ii), a difference between Genscher and the Presidency on (c)(iii) and on (c)(iv) it was clear that durations needed to be no less limited than any increase in own resources. The main problem was the scale of the gap to be covered.
4. Andreotti said that his silence could not be interpreted as consent. An attempt was being made to change the framework. The Stuttgart declaration was sacred for some but not for others who quoted it on a selective basis. He did not deny that there was some justification for the present discussion, but the Community was becoming very different from Italy's ideas of it. He and Craxi were very disappointed. If this was the re-launch of the Community it might be better to think of a free trade area. That must be better than all this complication, without which the Community could still exist politically. If a 6-year solution was not enough what would be? He objected strongly to the German demand not to contribute to their or the UK refunds. Italy could not go along with that.

5. Papandreou welcomed Andreotti's contribution. He then said that he was taking off his Presidency hat and speaking as Greek and spoke as in the attached copy of his speaking note, pleading for special treatment for the other poorer Member States, abandonment of the principle of juste retour, the importance of the re-launching of the Community, and the need to take decisions on IMPs. In his Presidency role he suggested that Mitterrand's proposal should be examined for application to the UK in 1985 and 1986. Mitterrand however suggested that the session should be suspended for bilateral consultations. This was agreed (at 5.45 pm).

6. (The interval was taken up by a Franco-German bilateral meeting in the Council chamber, apparently to discuss both MOAs and budgetary imbalances. During this period new Presidency papers on agriculture and budgetary discipline were tabled.)

7. Discussion resumed at 6.20 pm. Thorn complained that the Presidency's new texts were already available to the press before they had been discussed. Papandreou agreed that was improper. Reverting to budgetary issues he asked whether anyone had anything to say. The Prime Minister reverted to the subject of duration, on which she supported wording in sub-paragraph 4 of the Presidency proposal. But she thought that the German proposal was interesting: she would like to see some figures to flesh it out. Mitterrand said that he was ready to talk about a sum of money but not about a system. Schluster did not like the German proposal, because it perpetuated the concept of net contributions. He preferred the Presidency system. Papandreou asked how he should proceed. Should the Council discuss the system or the figures? The Presidency was in a great difficulty.

8. Mitterrand said that the issue was not simply a debate between the UK and France. Several other Member States were opposed to a system. The Commission's figures showed that the estimates of the UK's deficit had been wrong in the past. It was very worrying to cover 40% of a deficit and find that it was in fact 80%. If an amount were given to the UK to compensate retrospectively then there would be clarity. The Presidency were proposing compensation of 500-700 mecus. He could consider a maximum duration of 3 years, but would not go higher than 500 mecus. But the Council was not talking about reimbursement any more. It seemed to be in a tunnel. The Prime Minister said that they had not been in a tunnel when the discussion had started. In the preparation for the European Council people had been working on the basis that there would be a system. The UK could not go on paying its uncorrected contribution. Equally one could not go on with ad hoc solutions. As a result of the preparatory work agreement on a system was close. Now things were going into reverse. A durable system was indispensable. Otherwise the Community would tear itself apart. The Presidency's framework was right.

9. Lubbers asked whether the Prime Minister could accept the Presidency's system. The Prime Minister replied that she could not without the amendments she had proposed. Varfis said that no system had been agreed in the Special Councils. Various proposals had been considered and alternative figures had been mentioned. Papandreou again registered that the Council was in an impasse. He thought matters should be left to rest and discussion resume on agriculture and financial guidelines so that something at least would be agreed. Perhaps the informal climate of the after-dinner discussion would help.

### B. Agriculture (II)

1. Papandreou asked for comment on the Presidency compromise proposal. The Prime Minister said that major changes would be needed

and some points would need to be dropped. On paragraph 1 (1) (ce policy and guarantee thresholds) she could accept the text provided there or in paragraph 5 the following was added:

"The European Council agreed that guarantee thresholds will be applied to the other products subject to market organisation rules both in sectors which are or are likely to be in surplus and where such measures prove necessary because of a significant increase in expenditure or where production is increasing more rapidly than consumption."

2. Craxi objected. Italy could not be expected to accept a general rule covering all products whether or not they were protected by Community preference, especially when any exception for Italy was not to be discussed until the next day. Italy insisted on maintaining its present level of production. Italy was prepared to make its contribution to the saving that was needed (approximately 500 mecu). Papandreu agreed to deal immediately with the necessary arrangements for Greece and Italy in the milk regime. He suggested that Italy should maintain its 1983 level of production. Varfis made a statement claiming that Greece's problem in the milk sector stemmed from public health and transport difficulties: Greece should also maintain the 1983 level. Papandreu ruled that what Craxi and Varfis had said should be incorporated into the text. But FitzGerald interjected that milk was critical for Ireland. The British argument (on the budget) was all about the difference between 0.5% and 0.6% of national income. What was proposed for Ireland would affect between 5% and 6% of GDP. No Irish government could accept that. Ireland had no intention of taking unfair advantage of the derogation that he was seeking.

3. Lubbers said that he agreed with the Prime Minister about paragraph 1. Genscher said that either under paragraph 1 or paragraph 5 there should be a statement that guarantee thresholds should apply to all products subject to intervention or aid. The language had to be clear. Otherwise the Stuttgart mandate would not have been achieved. All Member States must contribute to savings.

4. Andreotti said that it was true that milk was the main culprit, but other products could not be treated in the same way. Craxi had already stated his position on milk. He agreed with Genscher about products in surplus. But where the Community had decided to conclude external trade agreements allowing unlimited imports that must be taken into account before one penalised domestic producers. Papandreu said that Greece agreed with that.

5. Thorn said that he completely shared the Prime Minister's view. But he could accept either her text or the Presidency text because thresholds were not needed where they had not been proposed: sugar, olive oil, tobacco and wine. The existing regulations limited additional plantings. Genscher did not accept that interpretation. He quoted the instance of rape seed. The issue could not just be swept under the carpet. The point must be in the text, if necessary in square brackets. The problem would not go away.

6. Turning to paragraph 2 the Prime Minister said that she had made specific proposals for amendment the previous day. In particular she could not agree to a blanket reconsideration of import arrangements, and she suggested a slightly revised text which in her view was likely to be acceptable. Papandreu agreed to consider it.

7. On milk Kohl asked how increased production was to be financed? With everything in the Stuttgart declaration being unpicked there was not going to be any saving on anything. What had the Commission to say? Orsoli said that an increase from 87 to 99 million tonnes

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would cost 300 mecu. In which case the co-responsibility levy would need to be increased to finance that from 2 to 3% and the exceptions abolished.

8. Schlueter said that he could see the argument for a threshold greater than 97 million tonnes but it would be better to stay at that point and avoid recourse to a co-responsibility levy. He also noted that the possibility of national distribution of quotas on a dairy basis had been opened up. He had reservations about the intensive levy, and the points on skimmed milk powder and butter subsidies. Lubbers said he understood how difficult it would be to cut production, but he wondered why Ireland needed to be allowed further growth. He thought that 1983 should be the ceiling for Ireland. Any further big increase would make Ireland the main cause of the surplus problem. He could not explain that production had to be cut elsewhere alongside continued growth in Irish production. In sub-paragraph (d) of section 3 he wanted to see the word "restrictive" rather than "efficient". And he hoped that the exemptions in sub-paragraph (e) applied only to hill regions. He could not accept a tax on intensive holdings. He was not in favour of cuts in milk being offset by increases elsewhere. Mitterrand thought "strict" or "stringent" preferable to "restrictive".

9. Werner said that sub-paragraph (a) was acceptable with an exception for Ireland. Sub-paragraph (b) should be stronger and should refer also to special consideration for handicapped regions and those with a natural aptitude for milk production. Mertens repeated that he would prefer 1981 plus 1% as a reference base, but he would not insist on that. He could agree with the Presidency text. In sub-paragraph (d) he agreed that "strict" was better than "efficient". And in sub-paragraph (e) he agreed to the intensive tax and the end of butter aids. Andreotti could support Ireland, even though it would cause an enormous problem in Italy, but something needed to be added. For Italy and Greece the 1983 threshold should continue to apply. Papandreu preferred 1981 plus 2% because production had fallen in Greece.

10. The Prime Minister said that the discussion was leading to trouble. She could not accept the super levy if there was to be any discrimination. Ireland must be helped in some other way. In sub-paragraph (b) the word "collected" should be replaced by "produced". Furthermore the bigger the quota the stronger became the case for a price freeze. She could not accept any increase in the co-responsibility levy. She agreed with others that the three exceptions should be omitted. Lubbers said that Oraxi had made two important points: that other products should not be hit and that an exemption should be made for Italy's milk production. He would find that difficult to explain. He could not have any exception for Italy. Genscher urged the Presidency to stick to a quota of 97.8 million tonnes. He appreciated the Irish problem. But he understood that in terms of Ireland not having to cut production rather than that Ireland should have continued growth. He too could not explain that domestically. He could accept an increase in the co-responsibility levy but no exceptions from it. Kohl added that if they set a threshold of 99.8 tonnes the members of the European Council were not being fair with each other. With the exceptions that would come to over 100 million tonnes. How could that be financed? The discussion was moving away from the Stuttgart declaration. It was well off course. Andreotti said that it was easy for Italy to understand that Ireland should have an increase of 2%. But they could not accept any reduction in Italy's production.

11. Papandreu noted that not much time was left. He was surprised and depressed that for all the hard work on the Presidency's proposals

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there had not been so much difference of view in July as there is now. Differences were now very sharp. This made things extremely hard for the Presidency. It was clear that the political will to go forward was lacking. He hoped that at and after dinner some movement would be possible.

12. Mitterrand wanted to state the French view on the agriculture text. He had no comment on the first section. On the second he insisted on national sovereignty on export credits. On the third (milk) he said that a base year of 1981 plus 2% would put France in difficulties. It would be necessary to have 1981 plus 3% or 4%. He had no objection to an exception for Ireland but why Northern Ireland as well? Why not the whole of the United Kingdom? Guarantee thresholds could not be applied to the individual farm. They should be set at the national level to avoid cheating. He could accept sub-paragraph (d) but thought it might also be useful to refer to Article 39. On the co-responsibility levy he thought that the present exemptions should remain. Sections 4 and 5 (cereals and other products) were all right. He did not wish to discuss section 6 (the tax on oils and fats) at that moment.

13. Thorn who had the last word in the discussion, advised calm and determination. He regretted that so little progress had been made. For years enormous work had been done on this negotiation, but headway had not been made on any point. The Commission's proposal remained at the centre of the stage. It was indefensible to set a quota higher than 37.2 million tonnes. To set 100 million tonnes would be impossible. It would merely endorse the further growth of surpluses. This could not go on.

F. AFTER DINNER DISCUSSION, MONDAY 5 DECEMBER

1. When Foreign Ministers joined Heads of Government after dinner Papandreu invited Thorn to begin the discussion. Thorn suggested that the Council should now seek to deal only with a few big questions. It should launch the new policies and determine a procedure and timetable for the rest. He suggested an early meeting of the European Council, eg at the end of January or the beginning of February. The timetable for the coming year was important with the EP elections and the price-fixing. The issues should all be kept together. Something less formal than ordinary Council meetings was needed. The Press should be kept away.
2. Papandreu thought that Thorn's suggestion would not prevent Athens from being a failure. It would not give the necessary momentum for a success at the next meeting. Mitterrand thought that if there was a failure at this meeting it was just as likely to be a failure at the next one. Some thought that positions were coming together. The Presidency text was good, but everyone was moving away from it, each with its own national demands. If all agreed that it was right to find economies, then France could agree on that. All could agree on new own resources, new policies and enlargement. He was prepared to make concessions. If all said that they would make one concession, or more than one, it might help. If that was not possible on the following morning, he saw no point in meeting again in plenary session. In that case his inclination would be to wait for three or four months to give time for people to see what they were missing. He suggested therefore that new policies should be discussed. As for enlargement, that depended on new own resources. And that led into the discussion of budgetary questions.
3. On the British question it was necessary to avoid going back on the Treaty. One possible approach would be to set an amount for a few years. He was prepared to discuss a figure and the number of years to which it would apply. He was also prepared to reach agreement on MOAs, though officials seemed unable or unwilling to. Reverting to enlargement he said that it would be rather odd to tell the candidate countries to come in and leave the problems to be sorted out later. One could not say 'yes' to them at Athens and hope that everything would be all right in two or three months' time. One could not say 'yes' without knowing about the transitional measures.
4. Kohl thought that for the European Council to leave Athens without a result would have a deep effect. The Federal Republic was getting bored with the Community. But he could see no alternative. He had felt that things were very different at this European Council from at Stuttgart. He could only agree on a complete package. The Community must face up to its problems including the German problem, and honour its obligations to Spain and Portugal. It was quite possible that the Community would say yes to enlargement and to own resources, but that would only work if other parts of the Stuttgart package were also agreed. So savings had to be made. He had not heard much about that. How would a milk threshold of 100 million tonnes be defended publicly? That would have to be got over. He could not defend cuts in production in Germany unless there were also good savings. All governments were facing the European parliamentary elections, so they were all in the same boat.
5. The Prime Minister thought that it would not be possible to complete the business the next day. The task was Herculean. There was too much detail. They ought instead to set tasks for Ministers. It was crucial to agree on a strict financial guideline for agricultural expenditure, then agricultural work could go to

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Agricultural Ministers. A timetable and procedure should be agreed. And they should try to agree on a financial guide. Oraxi thought that if one problem could be solved, that might open the way to others. If not, it would simply be a case of finding the best way out. Martens thought the documents had been too complex and too many points had been left for Heads of Government to resolve. There was no hope of agreement. No result could be achieved without a common will. FitzGerald thought Mitterrand's intervention had offered hope. He hoped that it would be possible to agree on one or two concrete things and identify general lines for the rest.

6. Schlueter said that much work had been done, but failure was inevitable. Negotiators had not been given enough margin for manoeuvre. He was not sure that it was wise to leave matters to be solved in March. It might be easier on the morrow than then. Lubbers could accept that it was not possible to reach agreement the next day. There was no mood of compromise. There might be a better atmosphere after a few months, though he was sceptical. He thought that a package could be constructed. This might comprise new policies, which were easy; own resources; rationalisation of agriculture; and enlargement. It would be possible to say that own resources needed to be increased for enlargement. Rationalisation of agriculture was a pre-condition for the UK and the FRG. The milk deal should be accepted (he did not say which). He thought a one-year price freeze should be combined with special arrangements in sectors other than milk. There could perhaps even be an increase in co-responsibility levy. There was no need to fix special rules for other products if there was a one-year freeze. The Federal Republic could be let off its share of the burden of compensating the United Kingdom, but only if the UK accepted a relatively limited amount. If some such broad approach were not possible then another meeting would be needed. Everyone should be prepared to contribute to the solution. Failure would be a moral blow for the European Community. He thought a line of conduct could be sketched out. An effort should be made. In other words decisions should be taken for the next year or two and then in the longer term looked at again.

7. Varfis said that Stuttgart had produced a balanced basis for agreement on the need for serious economies, the re-launching of the Community, and dealing with the budget problem. He could put together a text on new policies, and the budget problem could be isolated; it need not obstruct other questions. A pragmatic solution could be found for 1984. Spandreu, commenting on Lubbers' package, said that for him and for Italy decisions on EMU would form an essential part. Lubbers responded that he had many reserves on the package himself.

8. The Prime Minister said that she was horrified by what had been said. The re-launch had been under discussion for two years. Any such compromise package would be another botch. The real issues could not be avoided. Spandreu thought that the discussion was exhausted. He suggested that the Council resume at 9.30 in the morning and try for a further hour or so to see if a solution could be reached. If not, then the final one and a half hours should be used to decide what to do next. The session closed at 11.30 pm.