Part A.

SECRET

(Circulate under cover and notify REGISTRY of movement)

Begins: 1/4/82
Ends: 17/5/82.

PO -CH /GH/0073

PART A

Chancellor's (Howe) Papers:

COMMON AGRICULTURAL POLICY THE THIRTY DAY MANDATE

Disposal Directions: 25 Years

26/7/95.

PO -CH /GH/0073 PART A

1/4/82.

EXCHEQUER
- 2 APR 1982
Mr Littler: for advice please
Ps/CST
Ps/FST
Sir D Wass
Sir K Couzens
Mrs Medlay-Miller
Mr Edwards

CONFIDENTIAL

Qz.02528

MR COLES

cc: Private Secretaries to:
The Foreign and Commonwealth Secretary
The Chancellor of the Exchequer
The Minister of Agriculture
Sir Robert Armstrong

[Pl. see the Chancellor's query on para 5.]

30 MAY MANDATE: FOREIGN MINISTERS MEETING, 3 APRIL

Despite President Mitterrand's negative remarks about the Thorn/Tindemans proposal (the so-called "non-paper" attached as an Annex), the meeting of Foreign Ministers on Saturday is still to go ahead. Mr Walker has reported from Brussels that Monsieur Cheysson has been saying that the French President was misinterpreted - he had not meant to imply that the Thorn/Tindemans paper was not in the French view a basis for negotiation; only that it was not a basis for agreement in its present form because it contained no figures which would establish French liabilities. It may therefore be that the French are climbing down and that Monsieur Cheysson will negotiate on Saturday on the basis of the Thorn/Tindemans non-paper. On the other hand, there have been rumours that the French government are working up a counter-proposal which they may table in Luxembourg.

2. Officials of the Foreign Office, Treasury, MAFF and Cabinet Office have prepared a brief for the Foreign Secretary on the assumption that the negotiations on Saturday will be based on the Thorn/Tindemans document. For the most part it stays within the guidelines already approved by Ministers, in particular:-

(i) Duration - we can accept five years.

(ii) Review - a review at the end of the period of the agreement is essential; but there is no need for the UK to insist upon words that may appear to other Member States to prejudge the question whether the compensation should continue after the end of the five year period.

/(iii)

(iii) Flexibility or "risk-sharing formula" - we must secure an amendment to the second half of paragraph 2 of the non-paper so that the compensation is adjusted automatically to changes in circumstances and an annual negotiation over the figures avoided. The Foreign Secretary is therefore briefed to propose an automatic formula such that, if the ratio gives the UK too much, then the refund should be reduced by an agreed percentage of the excess; and, if the ratio gives the UK too little, then the refund should be increased by the same percentage of the shortfall. Ideally, the risk-sharing compensation percentage should be the same as (ie not less than) the basic compensation percentage for 1981 - the y per cent in the draft. Otherwise our overall compensation percentage would decline over time if our deficiency of receipts increased in nominal terms.

(iv) We need not object to the other component of the last sentence of paragraph 2 of the non-paper, namely that the "risk-sharing formula" described above only be triggered if a stated percentage tolerance margin is exceeded. But we should argue for (a) a reduction in the percentage tolerance margin from 10 percentage points to 5 percentage points and (b) the application of the risk-sharing formula to the whole of the excess or shortfall, compared with 1981, if the 5 per cent margin is exceeded.

(v) We must insist on the extension of paragraph 3 of the non-paper so that it relates to the whole of our contributions gap and not just the VAT element in it. Without such an extension it is unlikely that our objective of refunds totalling 90 per cent of our unadjusted net contribution could be achieved.

(vi) Financing - we can accept ad hoc methods of financing outside the own resources system such as the use of Article 200 of the Treaty of Rome, provided that such a device does not open up the means of evading the 1 per cent ceiling. And, if necessary to secure

/an

an otherwise acceptable settlement, we can accept a commitment to review the own resources system in the context of enlargement; but only on the clear condition that there is no commitment whether explicit or implicit, to raise the 1 per cent VAT ceiling.

3. In the absence of any new developments, there are only two points on which officials would wish to recommend that the brief give authority going beyond existing Ministerial agreements. These are discussed in paragraphs 4 and 5 below.

Paragraph 4 of the non-paper

4. The United Kingdom has criticised paragraph 4 of the non-paper because it would require a new negotiation starting from first principles after the first three years of the agreement. As it stands it would convert what appears from paragraph 1 of the non-paper to be a five year agreement into a three year agreement. However, our discussions with officials from other Member States in the corridors at the European Council earlier this week have indicated that the device incorporated in paragraph 4 of the non-paper could be a way of persuading other Member States to drop their claims for degressivity. The idea lying behind this paragraph apparently is that these other governments would be able to say that, although the formula finally agreed contained no explicitly degressive element, it would run for only three years so that (they would argue) degressivity could, if appropriate, be imposed in the second part of the time-span of the agreement. Given that the absence of explicit degressivity will create a presentational problem for other governments and that UK Ministers have already contemplated the possibility of a four year settlement, officials recommend that the Foreign Secretary be authorised to agree, if necessary, to an arrangement whereby four years (ie 1982-1985 inclusive) would be covered by paragraph 2 and the arrangement for 1986 be decided by the formula in paragraph 4. This would be to replace a "three-plus-two" solution by a "four-plus-one" solution. Dutch officials have already hinted that a "four-plus-one" solution might be

/acceptable

acceptable to their government. It would, of course, be essential to have provision for a review of the arrangement as a whole at the end of the five year period in addition to the formula for 1986 incorporated in paragraph 4 - see paragraph 2(ii) above.

Contribution gap (paragraph 3 of non-paper)

5. Applying the percentage compensation to levies and duties as well as to the VAT - ie our objective for changing paragraph 3 of the non-paper - is likely to prove the most controversial aspect of the negotiations on Saturday, apart from the actual figures. Our insistence on covering the whole of the contributions gap may lead to a total block in the negotiations. Officials therefore recommend that the Foreign Secretary be authorised in the last resort to offer to consider a somewhat lower percentage compensation for the levies and duties element than for the VAT element in the contributions gap. The difficulty about this is that it introduces an extra degree of uncertainty about the eventual outcome: we cannot predict how large a proportion of our total contributions gap the levies and duties element will constitute, and, if the percentage compensation it attracts is less than the percentage for other elements, we have to reckon that we would lose or gain respectively according to whether the levies and duties element were higher or lower. It will therefore be important that the concession being contingently recommended should in practice be offered only if it is clear that the combination of percentages being considered will leave negligible risk of the overall result of the arrangement being less favourable than our minimum authorised demand (see next paragraph).

???

Figures

6. On figures the present UK position is that the solution should be based on a percentage sharing of our unadjusted net contribution with the Community paying 90 per cent. If on Saturday it seemed probable that a solution could be negotiated which, on reasonable assumptions about the evolution of the

/relevant

relevant quantities in future years, would produce compensation of somewhat less than 90 per cent of our unadjusted net contribution over the period of the agreement, the Foreign Secretary might wish to secure authority by telephone to go below 90 per cent so as to avoid breaking up the meeting and losing the opportunity of an agreement. Arrangements are therefore being made for the Prime Minister and the Chancellor of the Exchequer to be contacted over the weekend if matters get that far (which seems at present unlikely).

Recommendation

7. Foreign Office, Treasury, MAFF and Cabinet Office officials recommend that the Foreign Secretary's instructions be extended to include the points made in paragraphs 4 and 5 above. If this is agreed, it may not be necessary for the Prime Minister to hold a meeting tomorrow before the Foreign Secretary's departure for Luxembourg; but the Prime Minister and the Chancellor will wish to take note of paragraph 6.

D.H.

D J S HANCOCK

1 April 1982

23 mars 1982

NON PAPER

Subject: specific details of items 2 and 3 of the document of 18 January 1982 from the Council General Secretariat

1. The Community will grant compensation to the United Kingdom for 5 years, starting in 1982.

2. The basic amount of this compensation will be set at a uniform level for 1982, 1983 and 1984 of [x million ECU]. This amount represents y % of the objective indicator for 1981. If this ratio between the compensation and the objective indicator varies in 1982, 1983 or 1984 by more than 10 %, a correction will be made on the basis of a Commission proposal, on which the Council will take a decision by a qualified majority.

3. A further correction will be made if the United Kingdom's V.A.T. share exceeds its GDP share. This compensation will represent z % of the difference.

4. The amount of compensation for 1985 and 1986 will be decided on by the Council before the end of 1984 acting unanimously on a proposal from the Commission.

CONFIDENTIAL

Pwp

EXCHEQUER
- 2 APR 1982
Mr Edwards 2 +
Sir J Wass
Sir K Couzens
Mr Littler
Mrs Hedley-Miller

10 DOWNING STREET

From the Private Secretary

C.
Yours wrongly stamped

MR. HANCOCK

30 MAY MANDATE: FOREIGN MINISTERS MEETING, 3 APRIL

The Prime Minister has seen your minute of 1 April. She has no comments on paragraphs 1 to 3. As regards paragraph 4, she accepts the recommendation that the Foreign Secretary be authorised to agree, if necessary, to an arrangement whereby four years (1982-1985 inclusive) would be covered by paragraph 2 of the non-paper and the arrangements for 1986 be decided by the formula in paragraph 4 of the non-paper.

The Prime Minister is however concerned about the recommendation in paragraph 5 that the Foreign Secretary be authorised in the last resort to offer to consider a somewhat lower percentage compensation for the levies and duties element than for the VAT element in the contributions gap, especially if we have to envisage a percentage of less than 90 per cent for the Community's share of our unadjusted net contribution.

I am copying this minute to Brian Fall (FCO), John Kerr (HM Treasury), Robert Lowson (MAFF) and David Wright (Cabinet Office).

2 April 1982

CONFIDENTIAL

cc: Sir Douglas Wass
Sir Kenneth Couzens
Mrs Hedley Miller
Mr. Littler
Mr. A.J.C. Edwards

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 April 1982

A.J. Coles, Esq.,
No.10 Downing Street

Dear John,

30 MAY MANDATE : FOREIGN MINISTERS' MEETING, 3 APRIL

The Chancellor has seen a copy of David Hancock's minute to you yesterday. He is content with the line taken in it, and considers that, subject to the qualifications included in them, paragraphs 4 and 5 rest within the spirit of the authority given (to Sir Robert Armstrong) at the discussion the Prime Minister held last week.

The Chancellor will be ready for any necessary consultation over the weekend. He accepts that some further marginal concessions would be justified in the interests of securing an immediate overall agreement. But not otherwise. If full agreement now is impossible - which seems likely - we should not acquiesce in partial steps designed to give the appearance of narrowing differences and making progress, where this would involve further concessions on our part.

An example of the danger of marginal concessions is the point about levies and duties in paragraph 5 of the note. If "somewhat lower" meant going down from 90 to 80, for example, and this secured a satisfactory overall deal, it would be worth doing; but any larger reduction could be very costly. The Chancellor would want to avoid our even suggesting going below 90 other than to clinch a satisfactory deal.

Copies of this letter go to David Hancock and to the other recipients of his minute.

Yours ever,

John Kerr

J.O. KERR

CONFIDENTIAL

FROM: J.G.LITTLER
DATE: 2 APRIL 1982

CHANCELLOR OF THE EXCHEQUER

cc Sir Douglas Wass
Sir Kenneth Couzens
Mrs. Hedley-Miller
Mr. A.J.C. Edwards

If you agree, I'll write — as expanded.

EC BUDGET NEGOTIATIONS: 3 APRIL LUXEMBOURG MEETING

I attach a copy of a submission from Mr. Hancock to No.10, which rehearses the main features of the brief officials are preparing for Lord Carrington this weekend, and warns you and the Prime Minister of the barely possible need for telephone consultation this weekend (in the event of negotiations in Luxembourg becoming more productive than we at present expect).

2. I joined in the preparation of the attached submission, and I think that it is all - including paragraphs 4 and 5 - within the spirit of the authority given (to Sir Robert Armstrong) from your discussion with the Prime Minister and Lord Carrington last week. I think it might just be worthwhile, however, getting Mr. Kerr to drop a line immediately to Mr. Coles, on the lines of the attached draft, to give the Prime Minister your opinion and make the cautionary remark about avoiding any further concessions except in the context of getting an immediate overall settlement. I attach a draft.

3. Any need for consultation over the weekend will obviously raise more difficult issues. I would like to make two points:-

(a) General objective: you will want to keep your sights firmly on the overall effect on our net contribution. On this, I have nothing to add to the brief I gave you a week ago, of which I attach a spare copy including the table putting the part of our costs around which negotiations are taking place in the context of other EC costs to us.

(b) Details: there is much slippery ground, and Lord Carrington is sometimes understandably impatient over what appear to be technicalities of definition, which in practice could make a substantial difference to the financial outcome. Mr. Edwards will be in Luxembourg with Lord Carrington. Should the need for

reference back home arise, I hope that he will be able to contact Sir Kenneth Couzens and myself, and I suggest that you should be chary of any urgent clearance of particular ideas unless you are satisfied that Mr. Edwards has vetted them - preferably by having a word directly with him, or with Sir Kenneth or myself, before you respond.

4. I will arrange for you to have this evening a small dossier of briefing documents which it would be useful for you to have readily available if we should need to discuss details over the weekend.

(J. G. LITTLER)

PS

Since dictating the above, I have seen your marginal comment on paragraph 5 of Mr. Hancock's note. You have indeed picked the most troublesome point. I attach now additionally a sheet headed "Table 3" which Mr. Edwards has prepared as part of the full briefing, precisely in order to impress upon the Foreign Secretary and others how dangerous this particular modification could be. This does not mean, however, that it must be ruled out. Everything depends on the percentages actually chosen. Mr. Hancock's paragraph 5 was largely rewritten by Mr. Edwards and myself, including the phrase "somewhat lower" and the last sentence highlighting the importance of the actual numbers and resulting arithmetic.

CONFIDENTIAL

DRAFT LETTER TO:

A.J. Coles, Esq.,
No.10 Downing Street,
LONDON, SW1.

cc B.J.P. Fall Esq., FCO.
~~cc PS/Foreign Secretary~~
~~PS/Minister for Agriculture~~
~~Sir Robert Armstrong~~
~~Mr. Hancock~~
R Lowson Esq, MAFF
D J Wright Esq, Cabinet Office
D J Hancock Esq, " "

30 MAY MANDATE: FOREIGN MINISTERS MEETING, 3 APRIL

The Chancellor has seen a copy of David Hancock's ~~note~~ minute to you ~~of~~ yesterday. He is content with the line taken in it, and considers that, subject to the qualifications included in them, paragraphs 4 and 5 rest within the spirit of the authority given (to Sir Robert Armstrong) at the discussion the Prime Minister held last week.

The Chancellor will be ready for any necessary consultation over the weekend. He accepts that some further marginal concessions would be justified in the interests of securing an immediate overall agreement. But not otherwise. If full agreement now is impossible - which seems likely - we should not acquiesce in partial steps designed to give the appearance of narrowing differences and making progress, where this would involve further concessions on our part.

Copies of this letter go to David Hancock and to the other recipients of his ~~note~~ minute.

Yours

An example of the dangers of marginal concessions is the point about levies + duties in paragraph 5 of the minute. If "Smithed lines" meant going down from 90 to 80, for example, and this seemed a satisfactory overall deal, it would be with delay, but any larger reduction could be very costly. The Chancellor would want to avoid our even suggesting going below 90 ecus than to clinch a satisfactory ~~compromise~~ deal.

JGL would buy this addition.

From : Mrs M Hedley-Miller
Date : 20 April 1982

MR KERR o/r

cc Miss Rutter
Mr Springthorpe

PUBLIC OPINION AND EUROPE

Sir Kenneth Couzens had a word with me (after my return from recent leave) about your note to him of 30 March. I have had a word with Miss Rutter, but am sending you a note; when you get back Sir Kenneth Couzens and I will be away again on (different) official visits.

2. We are all agreed about the essential Treasury message in these papers being right.

3. But Sir Kenneth Couzens and I are doubtful about the proposed method of responding to the FCO. The message is not really or merely for FCO officials. You were addressed by the then Foreign Secretary's Private Secretary; in principle therefore a reply on the same network would seem to us to be right.

4. However, overriding all this, is the fact that life has changed since you wrote your note of 30 March. The new Foreign Secretary has other preoccupations at present : preoccupations moreover which render more nuancé our approach to the EC Budget discussions - though not our basic firmness on the issue. So the time for considering this exchange is not ripe. I think that Miss Rutter's instinct was very similar. Certainly I suggest that the papers should be allowed to lie without action for the time being.

Y. Engledow.

p.p. MRS M HEDLEY-MILLER

PERSONAL

M. attach
The Fall/Kew
letter —
of mid March,

FROM: J.O. KERR
20 April 1982

cc: Sir Kenneth Couzens
Miss Rutter

MRS. HEDLEY-MILLER about this

(It enclosed some Central Office material)

PUBLIC OPINION AND EUROPE

Thank you for your note today.

2. The Chancellor was in fact quite clear that he did not wish to write to the Foreign Secretary, or have a Private Secretary letter sent to the FCO, along the lines of the draft submitted by Mr.Ridley on 26 March. But he thought that it would be appropriate that the draft should be turned into a paper, attributed to Mr. Ridley, which could be shown to FCO officials. (As Sir K Couzens will recall, it was Mr. Hannay who proposed - on 10 March - to send the original Conservative Central Office dossier to the Chancellor: Lord Carrington expressed no view.)

3. I have not consulted the Chancellor again. Given the changes at the FCO, I am sure that he would be reinforced in his view that the 26 March draft should not become a letter to the Foreign Secretary or his office. But I am not sure that he would think the changes very relevant to the issue of whether "Mr. Ridley's paper" should be shown to Mr. Hannay and/or Lord Bridges, as he originally suggested. Both Hannay and Bridges seem to have survived the night of the long knives, and neither will be massively involved in the continuing Falklands crisis.

J.O. KERR

From : Mrs M Hedley-Miller
Date : 22 April 1982

MR KERR

cc Mr Springthorpe

PUBLIC OPINION AND EUROPE

Thank you for your personal note to me of 20 April, which arrived when I was beginning 2 days of official talks abroad.

2. Sir Kenneth Couzens has had a further word with you today. I understand that you will yourself now write to Mr Hannay.

3. On the attached copy of Mr Ridley's draft letter of 26 March I have some editorial suggestions in manuscript and in pencil. It will be apparent to you that I have assumed that the note is intended still to have fully the flavour of something written by a political adviser. All I have sought to do is to translate it from a draft letter into a memorandum of comment.

4. But please let me know if you wished me to do anything more drastic.

5. In view of the comments at the beginning of paragraph 2 of Mr Ridley's paper, you may wish to tell Mr Hannay that the commentary was prepared some weeks ago, before the Falkland Islands crisis.

MHM.

MRS M HEDLEY-MILLER

Confidential.

PM. type

DRAFT LETTER FOR THE CHANCELLOR TO SEND TO THE FOREIGN SECRETARY

Public Opinion and Europe: Mr Bickham's paper of 22 February.

I found ~~I was grateful for the sight of~~ Edward Bickham's 22 February paper "The presentation of the negotiations about Britain's contribution to the Community Budget", which was sent to the Treasury ~~your office sent me~~ in early March. ~~This is a subject which we have been thinking about a good deal.~~ While I agree with some ~~parts of what is in general an~~ excellent in general. There paper, ~~there~~ are however a number of issues which I see rather differently, ~~and it might be helpful for you and the PM if I note them at this important stage in the negotiations.~~

It would appear that EC issues do not loom very large at present in the general public's list of concerns. Unemployment and, to a lesser extent, inflation are the dominant anxieties to what seems to be an exceptional degree, judging from recent opinion surveys. It is ~~I do~~ not the inference ~~infer~~ from this, of course, that we should be relaxed about the EC's image ~~hereafter~~. The ORC survey undertaken by the Party "Public attitudes to Europe and European Institutions" of August 1980 (copy attached) did show that a policy of EC withdrawal could have significant appeal to some of ~~our~~ the electorate. This evidence is incomplete since the survey ~~curiously~~ omitted to ask the complementary question of how much ~~our~~ the Government's identification with Europe would ~~allow us to~~ attract votes from Labour and others. Nonetheless it warns ~~us~~ of the possibility that the Labour Party's new policy of unequivocal withdrawal could cause ~~us~~ real trouble.

It follows, ~~therefore, that it must be~~ right ~~to envisage a~~ there should be a more systematic presentation of the benefits of the Community to the public. Such a campaign ~~clearly~~ needs to be concrete, down-to-earth and relevant to ~~the~~ ordinary people. ~~This suggests several important conclusions~~. The aspect of the Community which will have that sort of appeal is that our membership underwrites important jobs and investment, present and planned, which ~~we would lose~~ would be lost if ~~we~~ the UK withdrew. Given the current preoccupation with employment, this ~~theme~~ must ~~surely~~ be the central ~~one~~ theme to exploit. Bringing that message home is not something the Government can do much about, ~~by what it or~~ though what ministers ~~such as you or I~~ say, ~~though that~~ can certainly help. What will count is the statements of individual employers and firms, with circumstantial detail~~. Specific accounts~~ of the decision of this firm to expand a particular plant or that firm not to expand another because of our membership or the risk of withdrawal ~~will be vastly more impressive than a hundred speeches by members of the Cabinet.~~ That kind of message has to be based on well researched material of the kind Edward Bickham ~~most~~ helpfully illustrated on page 4 of his paper. And it has to be put over by the employers themselves, eg in house newspapers and company reports and thus, indirectly, in the regional and local press – as part of a sustained campaign.

Alongside a campaign to put over these points we must obviously be very careful about specific EC issues which might be used by Labour (and perhaps even the SDP) to give their ~~anti-Community~~ campaign positions more leverage. The CAP and Fishing are the two obvious ones. I would not ~~, I think~~ however, agree with Bickham's assessment of the politics of the

farming issues. While the risk of dissatisfied members of the farming community leaving us are non-negligible (at least for the SDP), the risks of dissatisfaction with large food price increases on the part of the rest of the populace are far greater, and all our political opponents would stand to gain, particularly Labour in the important urban seats we won at the last election. The EC is, after all, identified with accusations that the CAP pushed up food prices which were a very live issue till recently and could easily be revived.

The fishing issue could, however, be rather more tricky. Clearly it is early days to be speculating about how this might develop. But it cannot be ruled out that the impact of "fishing up to the beaches" and the apparent threat of extinction of much of what remains of our fishing industry could be played up by the press and television in such a way as to agitate general public opinion, This would give Labour and the anti-marketeers a splendid stick to beat us with. So I judge We must do well and be seen to do well by the industry.

Finally there is the matter of the budget negotiations. Here Bickham's paper is in part a little obscure. But his general drift seems to be that the rows with the Community and intense publicity surrounding them brought us and the Community's image only temporary benefit and perhaps did lasting damage once that initial favourable image had been dissipated. That is not my assessment. I believe that the negotiations did us good as a party, helped ensure a much more favourable Budget outcome and did not

harm the Community's image. Indeed by securing a major saving in our contribution they may have removed from our opponents' hands a weapon which might well have made ~~our~~ UK membership vastly more unpopular and difficult to defend. As Table 5 of the August 1980 survey shows (copy attached), the reduction negotiated in 1980 secured not only the qualified approbation* of nearly 90% of ~~our own~~ Conservative supporters, but that of 68% of the whole sample, 68% of the Liberals, 67% of the weak Labour supporters and 48% of the strong Labour voters. That was an extremely favourable outcome by any standards.

This analysis leaves unanswered the fall in the summer of 1980 in the proportion of people who felt ~~our~~ that the Government's handling of EC matters was a reason for voting Conservative. ~~I see~~ But there is no paradox ~~in this~~. A waning of that attitude was inevitable as the period since the negotiation grew, particularly at a time when public opinion was getting increasingly restless for other reasons, mainly economic no doubt, and hence likely to look on the EC as but one part of a hostile world which was doing down the British economy.

A further point which may be important is that, truly paradoxically, the negotiation may have created in some minds not only an awareness that ~~we~~ the UK had been making a big contribution - something they had forgotten or perhaps never even known - but also the grotesque belief reflected

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*I am adding together the numbers voting "best deal", "good deal", and "not bad but could have been bigger".

Mr Kelley

Bickham / Hannay.

We spoke.
Please see the stuff
for Hannay, within,
which I'll despatch
if you're happy with it.

Mr Kerr.

Done by me.

M 2/4.

TABLE 5.

Q. There has been a lot of talk recently about the reduction in Britain's payments to the European Community. Which of these statements comes nearest your view ?

	All	Party Allegiance				
		Conservative		Labour		Liberal
		strong	weak	strong	weak	
	%	%	%	%	%	%
1. Mrs. Thatcher got the best possible deal for Britain.	15	28	11	6	10	18
2. Mrs. Thatcher got a very good deal for Britain.	16	29	18	5	15	13
3 Mrs. Thatcher did not do badly but she should have been able to get an even bigger reduction in Britain's payments.	37	32	58	37	42	37
4. Sub-total 1-4	68	89	87	48	67	68
5 Mrs. Thatcher failed to get a reasonable deal and Britain's contributions are still much too high.	27	9	10	45	28	27
Don't know	5	2	3	7	4	5

Conservative Party International Office
Conservative Research Department

32(IITH SQUARE · LONDON SW1P 3HH *Telephone:* 01-222 9000 *Telex:* 8814563 Conpar

Chairman of International Office: Sir Anthony Royle KCMG MP *Director of Research Department:* Peter Cropper
Head of International Office: Scott Hamilton

ESCB/CDB 22nd February, 1982

The Presentation of the Negotiations about Britain's Contribution to the Community Budget

1. The Evidence of Opinion Research

During the course of the negotiations which led up to the May 30th Agreement the popularity of Britain's Community membership plummeted from its highest point since the Referendum in June 1979 to its nadir. In March 1980 a MORI poll commissioned by Weekend World suggested (excluding don't knows) a 71% to 29% majority in favour of withdrawal.

It is, of course, impossible to isolate the effect of any one element, such as the Budget dispute, on the standing of the Government and on the approval rating of the Prime Minister. However, the following comments would seem to be tenable based upon the weekly tracking surveys used by the Party and other opinion research to which we have access:

i) A substantial fall in the Prime Minister's approval rate was discernible in the immediate aftermath of the Dublin meeting of the European Council when a deal seemed to be remote; her approval rating surged in the fortnight following the Luxembourg meeting and rose slightly during the month of June 1980 in the aftermath of the May 30th Agreement.

ii) Although there was no significant change in the Government's approval rating at the time of any of the major confrontations on the European Budget those saying they intended to vote Conservative rose by 4½% in the two weeks after the May 30th Agreement. In the period 4th-9th June 1980 of the 15% of respondents who claimed to have seen something likely to make them more favourable inclined towards the Government 14% mentioned the Budget settlement. However the transience of a "triumph", such as the May 30th Agreement can be seen by the results of our tracking surveys: in answer to a series of questions about the likelihood of certain policy stances making respondents vote Conservative the following figures were gathered when people were asked about Government policy "towards the Common Market".

	More likely to vote Conservative	Less Likely
4th-9th June 1980	47	35
11th-16th June 1980	39	39
18th-23rd June 1980	35	41
23rd-28th July 1980	27	43

iii) In return for the May 30th Agreement which was obtained at the expense of much acrimony - however necessary - the Government and the Prime Minister experienced small and temporary boosts to their popularity in the polls. In the longer term, however, Britain's membership of the Community - with which the Conservative Party is closely identified - remained unpopular to the potential benefit of the Labour Party.

.../Opinion

Opinion towards British membership of the Community has always been volatile as the following table suggests although it could also be argued that the troughs of the Community's popularity are getting deeper and the peaks lower:

Question: Do you think that British membership of the European Community is a:

	May 1975	July 1976	June 1977	May 1978	June 1979	April 1980	May 1981
Good thing	47%	39%	33%	29%	43%	22%	24%
Bad thing	21%	31%	42%	38%	25%	57%	48%
Neither	19%	21%	18%	28%	13%	13%	24%
Don't know	13%	9%	7%	5%	19%	8%	4%

Source: Eurobarometre

The most recent opinion survey conducted by MORI in November 1981 and January 1982 suggest that opinion is now in balance on the question of membership - although with a slight edge still for those advocating withdrawal. The point to be emphasised here is not which way the balance is marginally inclining at the moment, but the time it has taken since the last Budget dispute to bring opinion round to neutrality. Against this we need to note how quickly hostility to the Community grew through the whipping-up of somewhat chauvinistic resentment in the House and in the country during the negotiations which led up to the May 30th Agreement. If a similar campaign develops over the coming months we will start negotiations from a low threshhold of support for the Community, hostility to the Community has shown itself to be slow in responding to the presentation of the positive aspects of membership (possibly because at times of economic crisis it is a common phenomenon for the electorate to seek to blame external factors for their difficulties) and we will only have 12-18 months to neutralise the issue, without the benefit of holding the Presidency, at the same time as the Party and the Government will be trying to develop a number of other themes.

iv) According to a poll conducted by ORC on behalf of the Party, in July 1980, only 4% of the electorate failed to identify the Conservative Party as being in favour of Europe. 56% felt us to be "strongly in favour" and over 60% identified the Labour Party as advocating withdrawal - even though they had not formally adopted that position at the time.

2. Presentation of the Dispute

The Labour Party's advocacy of withdrawal, and their failure to produce clear cut alternatives to membership, have received a generally critical reception in the Press. The wider arguments for membership are being increasingly appreciated by opinion formers and a number of interest groups, like the CBI, the Chambers of Commerce, the NFU and the Engineering Employers, are beginning to produce arguments for staying in. What is clear is, that for both practical and political reasons, the Conservative Party cannot go into the next election advocating withdrawal, and whilst the Labour Party occupies that ground we cannot out "anti" the Antis. Hence by over-egging the pudding at home about the difficulties of winning a fair Budget deal we will be handing enduring ammunition to our opponents whilst helping ourselves only marginally, and in the short term. Accordingly, whilst the negotiations proceed over the coming months the Government and the

Party should aim, in presentational terms, to:

i) Avoid the negotiations being portrayed as a gladiatorial contest, and keep the temperature as low as possible in public statements and in press briefings. Recent editorials in "The Times", "The Sunday Times" and the "Daily Mirror" have suggested they will need little persuasion to take a moderate and reasonable line, and "The Sun" and the "Daily Mail" might be legitimate targets for a little personal persuasion from within the Government on this matter. News of a more positive nature, such as a Channel link announcement (scheduled for March), or Britain entering the exchange rate mechanism of the EMS, would also help to present a "business as usual" atmosphere.

ii) As far as this is consistent with (i), the sooner we get a settlement the better, as it gives a longer period for healing. The longer negotiations go on the weaker our position becomes, as the agricultural lobby demand action on the Farm Price Review, and as the deadline for the completion of a Common Fisheries Policy draws close. We must beware of the possible repercussions of handling a delay in the Farm Price Review insensitively, the Government must not appear oblivious to the difficulties of the British agriculture industry in blocking increases as we can hardly afford a drift of support in rural areas to the Alliance. It is not inconceivable that a clash could develop between Sir Henry Plumb and HMG over the use of the Farm Price Review as a tool in the wider budget negotiations.

iii) In order that the Budget issue is not seen as the only important aspect of our Community membership there should be a series of major ministerial speeches over the next six weeks on the wider benefits of membership. It would be inappropriate for these speeches to be made by FCO Ministers who are always felt to be "wet" on European issues, but the support of other senior Ministers should be enlisted for this project. These speeches should concentrate on the importance of Community membership for trade, jobs, investment and for British influence in international affairs. The activities of the CBI et al should complement this effort but we must be careful that such a head of steam of resentment against the Community is not built up in the Press and in the country as to lead to pro-Europeans feeling inhibited from speaking out - which was what happened in early 1980.

iv) Perhaps the following Government Departments could be prevailed upon to release anecdotal evidence that would be helpful in backing up "broad brush" European speeches:

- The Department of Trade should be asked to provide, from its Export to Europe Bureau, examples of companies which have been particularly successful in the Community market in recent months;

- The Department of Employment could provide examples of Community help in job creation or in maintaining employment through the ECSC and the Social Fund;

- The Scottish and Welsh Offices and the Department of Trade should be asked for examples of new industrial investment by American and Japanese companies, with the intention of exporting to Europe, to back-up the evidence in the ELEC Report.

The CBI are also trying to produce anecdotal evidence of the importance of the EEC for individual companies, and I have approached the FEE with a view to them passing on similar information

The following recently reported evidence of the effects of withdrawal could also be used:

- According to an article published in the annual "Electronics Location File", of 500 American electronics companies surveyed 36% plan to set up new manufacturing or sales outlets abroad in the next three years and 28% regard Britain as the most likely recipient of their investment. If Britain were to leave the Community 43% of these firms would regard the UK as being "no longer suitable" for investment.

- The Business Risk Environment Company of Maryland, a leading firm of American investment advisers, are telling clients not to invest in Britain before the next election because of the danger of the return of a Labour Government committed to taking Britain out of Europe.

v) Through Francis Pym's "Regional Exercise MPs" and the Meyer Group, briefing should be organised to ensure that the Government can expect a reasonable amount of support from its own benches for a restrained approach to the negotiations. If at all possible, Ministers should avoid mentioning target "rebate" figures in the House, either in terms of straight figures or as a comparison with the 30th May settlement. An unfortunate error was made by the Government during the last negotiations in allowing their progress to be judged relative to the declared aim of achieving a broad balance between our contributions and receipts, and in particular by acquiescing in the adoption of a motion mandating them to achieve that objective in the House. Thus although the May 30th settlement was a major achievement it was only seen as a relative success, to the extent that in our poll conducted by ORC, in July 1980, 64% of respondents felt that the Prime Minister could have achieved a better deal.

3) <u>The Future</u>

In no way does this note seek to suggest that the pursuit of an equitable Budget settlement is not important - of course it is, politically, economically and for the future running of the EEC - nor that the negotiations should be pursued in a desultory fashion. It merely concerns itself with how we might ameliorate the longer term adverse effects on our electoral position of a decline in support for the Community resulting from the conduct of the Mandate negotiations in their final stages. It accordingly seeks to counsel against the superficially attractive option of playing the negotiations in terms of a beleagured Britain fighting gallantly against overwhelming odds for justice from the robber barons of Brussels.

The fundamental problem which we face in dealing with the presentation of any dispute between Britain and the Community is that the British political debate on Europe has failed to progress perceptibly for over a decade. Because discussions about the Community are dominated by the eternal "in" or "out" question, every objection to a Community policy is portrayed by anti-Marketeers

.../as being

as being an argument for withdrawal rather than an argument for reform. If Britain is to play a more dynamic role in the Community - which would in itself make membership more popular - and if it is to develop the European dimension in areas which may be to our benefit, it is essential to move the debate forward so that Ministers do not feel inhibited, by the reactions of a hostile minority in the House, from taking initiatives which may extend Community co-operation to new areas. Thus, when the Budget dispute has been resolved it would be worth considering the scope for stimulating, through a series of forward-looking speeches, and informal discussions with leading journalists and television producers, a debate about the type of Community we want to build. Rather than just stressing the benefits which Britain currently derives from membership we should be aiming to make the Community seem an interesting and important organisation as opposed to a rather boring and marginally relevant bureaucracy. The question could legitimately be posed whether our present efforts to sell the idea of the Community are based on a strategy of stimulating the electorate's collective sub-conscious through inducing sleep. The papers produced by the International Office in early 1981 stressed the need for winning the argument about the economic benefits of Community membership in order to circumvent Labour efforts to fudge the membership issue through proposing some form of "sovereignty association". However, in selling the economic case the emotionally attractive political arguments have been subsumed in a welter of statistics. Planning should be got under way as soon as possible so that immediately the Mandate discussions come to an end we are in a position to seize the initiative in talking about the future and the opportunities presented by European co-operation rather than allowing the debate to centre continuously on the past. We also need to consider how, in being good Europeans, we differentiate our vision of Europe from that of the Alliance, and we need to project a coherent, Conservative vision of why the Community is important.

ESCB/CDB

22nd February, 1982

COVERING CONFIDENTIAL

cc Sir K Couzens
Mr Medley-Miller
Mr Ridley

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

26 April 1982

D H A Hannay Esq, CMG
Foreign and Commonwealth Office
LONDON
SW1A 2AL

pwp.

Dear David,

PUBLIC OPINION AND EUROPE

During Lord Carrington's talk with the Chancellor on 10 March you mentioned a recent paper by Bickham of the Conservative Research Department, and suggested that the Chancellor might like to see it. Francis Richards subsequently forwarded it to me.

It now - and rather belatedly - occurs to me that you might like to see some comments on it which were produced by Adam Ridley, and with which the Chancellor was broadly content. He would not wish to bother the Foreign Secretary with these papers at this juncture, but nor would he wish you to be bereft of a Treasury "political" reaction to the Bickham paper!

A copy of this letter goes to Francis Richards.

Yours ever,

John Kerr.

J O KERR

CONFIDENTIAL

Public Opinion and Europe: Mr Bickham's paper of 22 February

I found Edward Bickham's 22 February paper "The presentation of the negotiations about Britain's contribution to the Community Budget", which was sent to the Treasury in early March, excellent in general. There are however a number of issues which I see rather differently.

It would appear that EC issues do not loom very large at present in the general public's list of concerns. Unemployment and, to a lesser extent, inflation are the dominant anxieties to what seems to be an exceptional degree, judging from recent opinion surveys. It is not to be inferred from this that we should be relaxed about the EC's image. The ORC survey undertaken by the party "Public attitudes to Europe and European Institutions" of August 1980 (copy attached) did show that a policy of EC withdrawal could have significant appeal to some of the electorate. This evidence is incomplete since the survey omitted to ask the complementary question of how much the Government's identification with Europe would attract votes from Labour and others. Nonetheless it warns of the possibility that the Labour Party's new policy of unequivocal withdrawal could cause real trouble.

It follows that there should be a more systematic presentation of the benefits of the Community to the public. Such a campaign needs to be concrete, down-to-earth and relevant to ordinary people. The aspect of the Community which will have that sort of appeal is that our membership underwrites important jobs and investment, present and planned, which would be lost if the UK withdrew. Given the current preoccupation with employment, this must be the central theme to exploit. Bringing that message home is not something the Government can do much about, though what ministers say can

certainly help. What will count is the statements of individual employers and firms, with circumstantial details of the decision of this firm to expand a particular plant or that firm not to expand another because of our membership or the risk of withdrawal. That kind of message has to be based on well researched material of the kind Edward Bickham helpfully illustrated on page 4 of his paper. And it has to be put over by the employers themselves, e.g. in house newspapers and company reports - and thus, indirectly, in the regional and local press - as part of a sustained campaign.

Alongside a campaign to put over these points we must obviously be very careful about specific EC issues which might be used by Labour (and perhaps even the SDP) to give their campaign positions more leverage. The CAP and Fishing are the two obvious ones. I would not, however agree with Bickham's assessment of the politics of the farming issues. There may be the risk that dissatisfied members of the farming community will leave (at least for SDP), but the risks of dissatisfaction with large food price increases on the part of the rest of the populace are greater. All our political opponents would stand to gain from this, particularly Labour in the important urban seats we won at the last election. The accusation that the CAP pushed up food prices was a very live issue till recently and could easily be revived.

The fishing issues could be rather more tricky. It is too early to know how this will develop. But the possible impact of "fishing up to the beaches" and the apparent threat of extinction of much of what remains of our fishing industry could be played up by the press and television in such a way as to agitate general public opinion, and give Labour and the anti-marketeers a splendid weapon. We must do well and be seen to do well by the industry.

Finally the budget negotiations. Here Bickham's paper is in part a little obscure. His general drift seems to be that the rows with the Community and intense publicity surrounding them brought the Government and the Community's image only temporary benefit and perhaps did lasting damage once that initial favourable image has been dissipated. I disagree. I believe that the negotiations did us good as a party, helped to ensure a much more favourable Budget outcome, and did not harm the Community's image. Indeed by securing a major saving in our contribution they may have removed from our opponents' hands a weapon which might well have made UK membership vastly more unpopular and difficult to defend. As Table 5 .... of the August 1980 survey shows (copy attached), the reduction negotiated in 1980 secured not only the qualified approbation* of nearly 90% of Conservative supporters, but that of 68% of the whole sample, 68% of the Liberals, 67% of the weak Labour supporters and 48% of the strong Labour voters. That was an extremely favourable outcome by any standards.

This analysis leaves unanswered the fall in the summer of 1980 in the proportion of people who felt that the Government's handling of EC matters was a reason for voting Conservative. But this not a paradox. A waning of that attitude was inevitable as the period since the negotiation grew, particularly at a time when public opinion was getting increasingly restless for other reasons, mainly economic no doubt, and hence likely to look on the EC as but one part of a hostile world which was doing down the British economy.

A further point which may be important is that, truly paradoxically, the negotiation may have created in some minds not only an awareness

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*I am adding together the numbers voting "best deal", "good deal", and "not bad but could have been bigger".

that the UK had been making a big contribution - something they had forgotten or perhaps never even known - but also the grotesque belief reflected in the "Which" survey in the autumn of 1980 that the contribution was vast, and on a par with our spending on health and defence. There may well be something in this finding which demands urgent correction. But it does not imply any criticism of the way the Government handled the negotiations.

Looking ahead, I conclude that nothing in our 1980 experience suggests that we should foreswear in advance a robust negotiating posture in the present negotiations. We should of course do all we can to avoid near deadlock - but if events lead us into this, as they did in 1980, we must be prepared to be firm. Indeed, it can be argued that nothing less than a visibly vigorous and successful defence of our interests will suffice in the face of Labour's policy of withdrawal and the certainty of damaging criticism from them if the Government is thought to be too soft.

A RIDLEY
March 1982

CONFIDENTIAL

PUBLIC ATTITUDES TO EUROPE AND EUROPEAN INSTITUTIONS

D.C.B

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August 1980

CONTENTS

INTRODUCTION

In the summer of 1980, just over a year after the direct elections to the European Parliament, a survey of public attitudes to, and knowledge of, the E.E.C. and its institutions was carried out by Opinion Research Centre, on behalf of the Conservative Research Department.

A nationally representative quota sample of 1,006 electors was interviewed between the 3rd July and 10th July 1980.

The survey was carried out in the context of increasing public dissatisfaction with the Common Market and at a time when some Labour politicans were actively suggesting withdrawal from the E.E.C.

SUMMARY OF MAIN FINDINGS

1. There is a widespread and strongly held view throughout the Electorate that the E.E.C. has not succeeded in meeting its aims. This applies even to those groups traditionally well disposed to the E.E.C. particularly Conservative and middle class voters.

2. The Common Market is thought to have had overwhelmingly a detrimental effect on most aspects of Britain's Political and Economic affairs.

3. Britain is widely known to contribute more than it receives from the E.E.C. budget, and is equally widely thought to have done much less well from the E.E.C. than the other eight partners.

4. A majority of voters identify the Conservative Party as being the Party in favour of the E.E.C., and while Labour are widely thought to be against, the exact level of their commitment against is not readily identified.

5. A third of voters believe Mrs. Thatcher did well in renegotiation of the budget, a third, without being critical felt she could have done better and a third felt she had failed.

See 2.2.

a few 2.

6. On a more general level, a majority of voters believe the Government has looked after Britain's interests well. Fewer than a quarter of them (including barely half the strong Labour supporters) feel that Labour would do any better.

7. Although renegotiation of, or withdrawal from, the Common Market would have a superficial attraction, if included as part of a Labour Programme, it is no greater than the attraction of a prices and incomes policy. A small but significant minority of committed Conservatives feel that such promises would make them more likely to vote Labour.

8. There is widespread ignorance and indifference, though little hostility, to the European Parliament. Only 5% can name their Euro-M.P. compared with ten times that proportion who can name their Westminster M.P.

9. There is a strong belief that in areas of conflict of interest the Westminster Parliament rather than the European should have the final say and that Euro-M.P.'s should put Britain's interests before those of Europe as a whole.

10. There is strong support for co-operation on Foreign Policy, Defence and the Channel Tunnel and a feeling that Britain's benefits from the budget will improve.

11. Only a quarter of voters believe now that future generations will reap the benefits of E.E.C. membership, while almost twice that number claim to have believed this in the past.

12. 41% of the electorate believe Britain should remain an E.E.C. member while 50% believe she should withdraw.

A significantly higher proportion of Conservative and middle class voters favour staying in, while Labour, working class voters and pensioners favour leaving. Men are marginally more likely than women to be sympathetic to remaining in the E.E.C.

TABLE 1.

E.E.C's Success in Meeting its Aims

	July 1980				Jan. 1979
	All	Party Allegiance			All
		Con.	Lab.	Lib.	
	%	%	%	%	%
Very well	1	1	*	-	2
Fairly well	14	19	9	12	25
Not very well	41	46	39	44	24
Not at all well	39	28	46	39	41

MAIN FINDINGS

1. THE RECORD OF THE E.E.C.

1.1 Only 15% of voters believe that the E.E.C. has succeeded either "very" or "fairly" well in "meeting its aims so far". Middle class and Conservative voters, though still a small minority of each are more optimistic in their judgements. In terms of age and region there are few differences about - 80% of all subgroups who do not believe that the market has succeeded in meeting its aims.

In January 1979 the electorate were rather less critical of the success of the E.E.C., 27% then thought that it was meeting its aims very or fairly well. However, the proportion giving the most disapproving view, that the E.E.C. was meeting its aims "Not at all well" has apparently not changed, the increase is in the proportion saying it is doing not very well. (See Table 1)

1.2 Electors were asked to say whether membership of the Common Market had had a good effect or a bad effect on a variety of factors. Without exception the Common Market's effect was more likely to be thought bad than good for every aspect. The detailed findings are discussed in paragraph 1.3 below.

A simliar question had been asked in January 1979, and for all those items which were asked in both surveys the electorate were now less likely to think that the Common Market had had a benefical effect than they had been in January '79.

1.3 Britain's Trade with the Rest of the World

By a majority of 67% to 7% electors think that Britain's E.E.C. membership has had a bad effect. There are no noticeable geographic or demographic differences.

The Amount of "Red Tape" and Bureaucracy

By a similar 69% to 1% margin and again with no differences, there is a feeling that E.E.C. membership has had a bad effect on this.

Unemployment in Britain

No one believes that membership of the E.E.C. has been beneficial. While Labour, working class and older electors are more likely to believe the E.E.C. effect has been bad, there was little regional variation.

British Industry

Again over half the voters believe E.E.C. membership has had a bad effect on British Industry. Even amongst the most favourably disposed (the professional and managerial grade) 47% felt the E.E.C. has had a bad effect and 17% that it has had a good effect.

The Amount of Food Produced and the Standard of Living of People in Britain

In each case more than half the electors thought the E.E.C. effect bad and fewer than 10% good. Once more only a small minority of the professional and managerial socio-economic group were marginally better disposed.

Although only a minority of voters were prepared to express a view on two features of British life:-

- Britain's influence on World Affairs
- Britain's Energy Supplies

more of them thought the E.E.C. a bad influence then thought it a good influence.

1.4 The only issue on which a quarter of the electorate were prepared to admit that E.E.C. membership might have been a "good thing" was on Britain's trade with the other Common Market Countries", though even then 43% felt the association had not been beneficial. In January 1979 electors had been considerably more likely to think that membership of the E.E.C. had had a good effect on Britain's trade with the Common Market countries than that it had a bad effect.

TABLE 2.

Countries thought to have done particularly well or badly from E.E.C. membership

	Thought to have done best or second best or third best.		Thought to have done least well, second least or third least	
	July 1980	Jan.1979	July 1980	Jan. 1979
	%	%	%	%
France	74	63	3	6
W. Germany	74	70	4	7
Eire	24	13	30	31
Holland	18	21	9	7
Belgium	14	20	8	8
Italy	14	15	43	39
Denmark	11	17	14	11
Luxembourg	8	6	10	9
Britain	2	6	83	68

1.5 A third of electors were unable to express a view as to the proportion of Britain's exports and imports which were to or from the Common Market. The largest single group (just under a third) felt that Britain exported between a quarter and a half of all her exports to Europe but imported between half and three quarters of her imports from the E.E.C. In all only 8% felt Britain had a favourable balance of trade with Europe while 48% thought it adverse. These attitudes are common to all demographic, geographic and political groups.

1.6 The very great majority of the electorate (83%) are aware that Britain gets less from the funds of the E.E.C. than she pays in. Only 2% think that the balance is in Britain's favour and few (8%) think that it is about even. This is a large change since January 1979, not surprisingly in view of all the publicity. At that time fewer than half the electors were aware that Britain got less from Community funds than she pays in.

1.7 Electors were asked which of the nine E.E.C.countries had done best, next best, and third best out of being a member; and which had done least best, next least, and third least well. Over two-thirds of the electorate thought that Britain had done least well out of her membership compared with 52% thinking this in January 1979. The only other countries which more than a handful of electors thought had done least well were Italy (9%) and Eire (4%). A further 14% of the electorate thought that Britain had done either second or third least well bringing the total who thought that Britain was among the three countries who had made least out of their E.E.C. membership to 83% of the electorate. Most of the remainder were unable to give any opinion at all.

The countries which were thought to have done best out of the Common Market were France and West Germany. In both cases three-quarters of the electorate thought that they were one of the three countries which had done best. In January 1979 France had been marginally behind West Germany, now the two are equally likely to be thought to have done particularly well. (See Table 2 opposite)

TABLE 3.

Q. Some people have said that now Britain is a member of the Common Market it is no longer a truly Independent Sovereign State. Do you think this is true or not ?

	July 1980										Jan.1979
	All	Social Class					Age				All
		AB	C1	C2	DE Under 65	DE 65+	18/24	25/44	45/64	65+	
	%	%	%	%	%	%	%	%	%	%	%
True	47	40	45	49	52	51	41	44	51	53	55
Not true	43	55	49	39	37	34	48	47	41	35	36
Don't know	10	5	6	12	11	15	10	9	8	13	9

If True Ask

Do you think this is a good thing or a bad thing ?

Good thing	12	29	16	12	3	5	17	12	8	17	
Bad thing	78	62	75	80	88	83	68	77	87	74	NA
Don't know	9	9	10	2	9	12	15	11	5	9	

1.8 The electorate is evenly divided about whether Britain has or has not lost its status as a truly independent Sovereign State since joining the Common Market. 47% think that it has done so and 43% that it has not. Older respondents and those in the manual-working classes are more likely to feel that this is true.

The proportion of the electorate thinking that Britain has lost its independence has declined somewhat since January 1979. (See Table 3)

1.9 The great majority (78%) of those who think it true that Britain has lost her Sovereignty think that this is a bad thing. Labour supporters, the manual-working classes and older electors, who were more likely to think that it was true were also more likely to think that this was a bad thing.

1.10 The Common Market is not thought to be the prime culprit for Britain's problems. World economic conditions are marginally more likely to be thought to blame. The Common Market comes second followed closely by the trade unions. The present Conservative Government and the nationalised industries each get a little blame followed by the last Labour Government. Manufacturers and businesses are the only group listed which was thought, on balance, not guilty.

The tendency of the electorate to blame outside factors such as world conditions or the Common Market for Britain's problems is not a new one.

TABLE 4.

Identification of Attitudes of the Political Parties to the E.E.C.

Q. Which, if any, of the three main political parties does each of these statements most apply to ?

	All	Party Allegiance		
		Con.	Lab.	Lib.
	%	%	%	%
They are strongly in favour of the Common Market:				
Conservative	56	54	62	54
Labour	5	7	4	4
Liberal	3	3	1	8
All equally	11	11	11	8
None	6	9	5	6
Don't know	19	17	16	20
They believe the Common Market is a good idea but it needs some changes:				
Conservative	28	37	22	20
Labour	15	9	24	7
Liberal	11	12	8	18
All equally	19	18	18	22
None	1	1	1	-
Don't know	27	23	27	33
They are against the whole idea of Europe:				
Conservative	2	1	3	-
Labour	26	32	22	30
Liberal	11	10	11	14
All equally	2	1	2	-
None	35	36	32	41
Don't know	25	19	30	15
They don't like the Common Market much but think there is no alternative for Britain:				
Conservative	13	12	13	14
Labour	22	20	26	22
Liberal	13	17	12	11
All equally	15	14	15	12
None	10	11	8	19
Don't know	8	26	26	22
They want Britain to leave the Common Market:				
Conservative	2	3	3	1
Labour	36	39	38	33
Liberal	10	11	10	10
All equally	1	1	2	1
None	27	27	25	39
Don't know	22	18	24	17

2. THE POLITICAL IMPACT OF THE E.E.C.

2.1 The Conservative Party is identified as the party most committed to Europe by a majority of the electorate. Labour are thought to have broadly an "Anti-E.E.C." view but there is no consensus as to precisely what form this view takes.

56% of the electorate see the Conservative Party as being strongly in favour of the Common Market, a view held about equally by supporters of each of three of the main parties.

A sizeable minority (28%) recognise that the Conservative Party feels the Common Market is a good idea, but that it needs some change. Conservative supporters are rather more likely to hold this view of their party.

The Labour Party is more closely identified with wanting Britain to leave the Common Market (36%) than with any other view on Europe, 26% think they are against the whole idea and 22% think that the Labour Party do not like the Common Market much but think there is no alternative for Britain. (See table 4)

2.2 Just over a quarter of the electorate (27%) are critical of Mrs. Thatcher's efforts in getting a reduction in Britain's contributions to the E.E.C. Budget. The largest proportion (37%) think that she did not do badly but should have been able to do better while 31% think she got a very good deal or the best possible deal. (See table 5)

2.3 The majority of the electorate believe that Mrs. Thatcher and the present Government are succeeding well in looking after Britain's interests in the E.E.C. A third think that the Government are doing badly and the remainder have no clear opinion.

There is no apparent difference between the views on men and women and the fact that electors in the unskilled manual working class and electors in Scotland are rather more critical may well be a reflection of their political allegiance. The level of support for the Government amongst Conservative supporters greatly outweighs the criticism amongst Labour supporters. (See Table 6)

TABLE 5.

Q. There has been a lot of talk recently about the reduction in Britain's payments to the European Community. Which of these statements comes nearest your view ?

	All	Party Allegiance				
		Conservative		Labour		Liberal
		strong	weak	strong	weak	
	%	%	%	%	%	%
1. Mrs. Thatcher got the best possible deal for Britain.	15	28	11	6	10	18
2. Mrs. Thatcher got a very good deal for Britain.	16	29	18	5	15	13
3 Mrs. Thatcher did not do badly but she should have been able to get an even bigger reduction in Britain's payments.	37	32	58	37	42	37
4. Sub-total 1-4	68	89	87	48	67	68
5 Mrs. Thatcher failed to get a reasonable deal and Britain's contributions are still much too high.	27	9	10	45	28	27
Don't know	5	2	3	7	4	5

BLE 6.

Q. How well or badly do you think Mrs. Thatcher and the present Conservative Government are succeeding in looking after Britain's interests in the Common Market ? Would you say they were succeeding, very well, fairly well, rather badly, or very badly.

	All	Party Allegiance				
		Conservative		Labour		Liberal
		strong	weak	strong	weak	
	%	%	%	%	%	%
Very well	8	20	8	2	3	3
Fairly well	46	64	72	24	40	60
Neither well nor badly	12	7	13	15	8	11
Rather badly	19	7	5	31	35	15
Very badly	12	1	-	24	10	9
Don't know	3	1	3	4	3	2

TABLE 7.

Q. Do you think that Labour Government would look after Britain's interest in the Common Market better or worse than the present Government ?

	All	Party Allegiance				
		Conservative		Labour		Liberal
		strong	weak	strong	weak	
	%	%	%	%	%	%
Better	23	1	6	54	33	11
Worse	29	64	49	4	12	24
No different	39	29	40	33	48	61
Don't know	8	6	5	9	6	5

2.4 The electorate are marginally more likely to think that the Labour Party would do worse rather than better. Just over half the strong Labour supporters think that their party would do better but nearly two-thirds of the strong Conservatives think that Labour would do worse. Four electors out of ten including about three out of ten of both the strong Conservative and the strong Labour supporters think that there would be no difference. (See Table 7)

2.5 In an attempt to measure the relative attractiveness of pledges to withdraw from the Common Market, or to re-negotiate the terms, as planks in a Labour election platform. electors were asked how much more less likely they would be to support Labour if various promises were made. (See Table 8)

Almost half the electorate say they would be more likely to vote Labour if Labour promised to take Britain out of the Common Market, and almost as many (although they are less likely to say that they would be "much" more likely) would be encouraged to support Labour if it promised to try to re-negotiate the terms on membership.

Only one policy has a similar level of appeal, bringing in laws to control increases in wages and prices. Just over half the electorate say this would make them more likely to vote Labour.

The least appealing of these are, not suprisingly, nationalisation of banks, insurance companies and other large companies and giving the unions back any powers the present Government has taken away.

2.6 The summary table shown overleaf sets out the relative appeal of the various items to Conservative supporters and the antipathy of Labour supporters. This shows clearly that taking Britain out of the Common Market, re-negotiating the terms of membership and a prices and incomes policy are all more likely to appeal to Conservative supporters than they are to repel Labour supporters, but the oppostie is true for the other four items. (See Table 9)

TABLE 8.

Q. I am going to read out a number of things which some Labour politicians have suggested the Labour Party might do if they were to win the next election. Would you tell me how much more or less likely you would be to support Labour at the next election if they said they would.

		Likelihood of voting Labour					
		Much more	A little more	No Difference	A little less	Much less	Don't know
Nationalise the banks, insurance companies and other large companies.	%	6	8	26	16	38	6
Take Britain out of the Common Market.	%	29	20	24	9	12	5
Reduce spending on Defence very considerably.	%	11	14	27	18	25	6
Stop the sale of Council houses to tenants.	%	6	10	36	20	24	5
Try to renegotiate the terms of membership of the Common Market.	%	12	32	31	9	10	6
Bring in laws to control increases in wages and prices.	%	15	38	27	8	8	4
Give the Unions back any powers the present Government has taken away.	%	5	11	26	20	33	6

TABLE 9.

Q. Likelihood of voting Labour, if, at the next election they promised to:

	All Conservative supporters		All Labour supporters	
	Much more likely	A little more likely	Much less likely	A little less likely
	%	%	%	%
Take Britain out of the Common Market.	15	17	4	6
Try to renegotiate the terms of membership for the Common Market.	7	30	7	8
Bring in laws to control increases in wages and prices	10	36	4	4
Give the Unions back any powers the present Government has taken away	1	1	11	19
Reduce spending on defence very considerably	2	9	12	18
Stop the sale of Council houses to tenants.	6	10	19	22
Nationalise Banks, Insurance and other large companies.	1	2	13	17

3. THE EUROPEAN PARLIAMENT AND ITS RELATIONSHIP WITH BRITAIN

3.1 A third of the electorate think the directly elected European Parliament has been "a good thing" and only 6% think it has been a "bad thing". The largest single group - 46% feel it has made no difference and 16% don't know.

Conservative, middle class voters, and those basically more in favour of the E.E.C. are rather more likely to think the Parliament benefical, while Labour and working class voters are rather more likely to think it has made no difference.

3.2 Half the electorate did not even attempt to guess which party had the largest number of M.E.P's among the United Kingdom delegation. 40% knew that the Conservative group was the largest. Only the professional and managerial group were rather better informed (54%).

3.3. When voters were asked whether they could name the Westminster and European members for their areas, 48% of them could correctly identify their Westminster M.P. with 41% not even hazarding a guess. 89% admitted not knowing who their M.E.P. was and only 5% were able to give the correct answer. There were no significant differences between demographic, geographical or political groups.

3.4 Only 15% of electors think that the directly elected Parliament has given Britain less influence in the Common Market, but only 29% think it has given it more influence. By far the largest segment of electorate (56%) think that it has made no difference, or say they do not know.

In January 1979 there was rather more optimism that the about-to-be directly elected European Parliament would give the United Kingdom more influence in the Common Market than we had before (43%)

3.5 The electorate tend to feel that the Westminster Parliament should have the final say on any issue with which they Westminster and European Parliaments are in disagreement. Only 16% of the electorate think that the European Parliament should have the last word. Views on this point have apparently not changed to any great extent since before the direct elections.

3.6 By a majority of seven to two the electors feel that Members of the European Parliament should put Britain's interests before the good of the Common Market as a whole. Only amongst the professional and managerial social class does this majority decrease at all.

4. THE E.C. & THE FUTURE

4.1 Marginally more people are in favour of expanding the E.E.C. to include Spain, Portugal and Greece (43%) than are opposed to it (33%). Conservative, middle class and young electors, men and, particularly, those in favour of the E.E.C. are more likely to favour its expansion. Only those who are basically in favour of Britain leaving the E.E.C. are more likely to oppose than to favour an expanded membership. However, support for expansion appears to have declined slightly since January 1979.

4.2 Amongst every single segment of the population there is a majority optimistic (and expecting) that "Britain will do better" rather than "worse" out of the Common Market budget in the future than she is now. Overall the ratio is 52% to 19%. Men, middle class voters and Conservatives are markedly more optimistic, but even amongst Labour supporters and those who would prefer Britain to leave the E.E.C. there are still more expecting better things in the future from the budget.

4.3 There is overwhelming support amongst all sections of the electorate for closer co-operation on foreign policy and defence - more than 80% accept these views.

4.4 Half the electorate agree that "there is no point in having a European Parliament as it cannot control what the Common Market is doing". Only a quarter disagree with this rather depressing point of view.

4.5 Opinion is fairly evenly divided as to whether or not "It is Important for the Common Market to produce as much food as possible even this means that there are sometimes surpluses". However the balance is, if anything, In disagreement with this. In January 1979 there was more agreement than disagreement.

4.6 In confirmation of the findings reported earlier (paragraphs 2.5 and 2.6) only a minority (14%) of the electorate feel strongly that a Labour pledge to take Britain out of the E.E.C. would mean that "many people would vote for them even if they did not usually vote Labour".

TABLE 10.

Agreement with statement

If the Labour Party promised at the next election to take Britain out of the Common Market, many people would vote for them even if they did not usually vote Labour.

	All	Party Allegiance		
		Conservative	Labour	Liberal
	%	%	%	%
Agree strongly	14	8	19	7
Agree	41	33	52	41
Neither agree nor disagree	8	10	6	8
Disagree	24	36	14	32
Disagree strongly	4	6	2	4

Although only 14% agree strongly a further 41% agree, and even the 8% of Conservative supporters who agree strongly represent a considerable minority in electoral terms. (See table 10)

4.7 The idea of the channel tunnel is approved by twice as many as disapproved amongst most sections of the electorate. Women, the elderly and strong Conservative supporters are somewhat less enthusiastic than the rest of the population.

4.8 Some of the power would appear to have gone out of the argument that "our children will get much greater benefits (from the Common Market) than we are getting at the moment". 45% claim once to have believed this, but now split evenly between those who do and who don't. Conservative and middle class voters are more likely to claim consistency with this view. Labour, working class and Trades Unionist voters are more likely to be amongst the third of the electorate who claim consistent hostility to this argument. (See table 11).

4.9 Finally, exactly half the electorate believe that "taking everything into account, Britain should not stay a member of the Common Market".. Views polarise on political and class criteria and to a lesser extent, according to sex. There is no significant difference according to age or to region (other than the Midlands appearing to be somewhat more hostile). (See table 12)

TABLE 11.

Q. One of the arguments people use in favour of Britain staying in the Common Market is that our children will get much greater benefits than we are getting at the moment. Which of these phases comes nearest your opinion of this argument ?

	All	Party Allegiance		
		Conservative	Labour	Liberal
	%	%	%	%
I used to believe it but I don't any more.	21	18	22	33
I used to believe it and I still do.	24	38	14	25
I used not to believe it but I do now	4	4	3	5
I used not to believe it and I still don't.	34	24	44	24

TABLE 12

	Britain should stay in %	Britain should not stay in %	Don't know %
All	41	50	8
Politics			
Strong Conservative	62	32	6
Weak Conserviatve	57	34	9
Strong Labour	21	70	9
Weak Labour	34	39	7
Liberal	44	48	8
Class			
AB	67	28	5
C1	52	39	9
C2	37	56	7
DE (under 65)	25	64	11
DE (over 65)	24	64	11
Sex			
Men	46	49	5
Women	38	51	11
Midlands	35	60	5
T.U. Activist	36	57	7

CONFIDENTIAL

FROM: J.G.LITTLER
DATE: 28 APRIL,1982

CHANCELLOR

cc Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Kenneth Couzens o/r
Mrs.Hedley-Miller
Mr. Kemp
Mr. Edwards
Miss Court

28 APRIL CABINET: EC BUDGET NEGOTIATIONS

For Action

The Foreign Secretary will be reporting yesterday's discussions in Luxembourg. He had a pretty rough time (although the atmosphere remained courteous). The main point is the following.

2. Throughout the day and particularly during a long lunch sessiom session of Ministers only, there was an increasingly concerted attempt by the other 9 to put pressure on the new Foreign Secretary to break the link between the farm price negotiations and the budget, and allow the former tobe concluded quickly. In line with this, the provisionally arranged and otherwise pointless further meeting of Agriculture Ministers today and tomorrow has been confirmed as taking place.

3. Mr. Pym resisted the pressure, using the arguments of a link in the context of the Mandate and a direct cost link. One possible answer might have been a robust counter-attack, emphasising our determination to maintain the link. However, Mr. Pym felt a little unsure about the risk of precipitating a row on this, his first formal, meeting with EC colleagues. He therefore concluded the discussion by undertaking to report to the Prime Minister and other colleagues here the strength of feeling of the other 9 countries on this issue, although he held out no hope of a change in the UK attitude.

4. As you know, agriculture is a strong card in our hands, and the only such card apart from the extreme step of withholding payments. Plainly we must not let it go, otherwise the budget negotiations will collapse.

5. I recommend:

- that UK insistence on maintaining the link should be confirmed, in unambiguous terms (I think this will in fact be what Mr. Pym

himself recommends);

- if any hesitation is shown, I think you could argue that, although it has been helpful to play softly and avoid confrontation in the agricultural negotiations on the budget issue, hitherto, the time has now come when we really need to bring more pressure on the others, and making it clear to them that they will not get what they want on farm prices unless they are a great deal more accommodating over the budget must surely be our best strategy.

Background

6. The remainder of the meeting was unhelpful. I suspect it probably was conditioned by Mr. Pym being new, and others developing during the course of the meeting the idea that this might be exploited. On the face of it - although in the longer-term this is probably a mere hiccough - several retrograde steps were made: a move down towards 3 years duration only, a strengthening of feeling against having a review clause, increased focus on the idea of a smalllump sum payment (most said 800 million ecus, but one or two were fishing for 600). Mr. Pym was strongly pressed to name a figure for which the UK would settle, annually for 3 years. He resisted this and gave nothing away.

7. Apart from one journalist at the press briefing after the meetings, nobody suggested a trade-off between the budget question and support over the Falkland Islands. But there was a good deal of oblique reference to solidarity, and I suspect that some of the other 9 were trying it on, in a discreet way, perhaps hoping as a minimum that they would embarrass the UK. It may indeed be that Mr. Pym was less robust than he might have been on this ground, as well as on the ground of avoiding a noisy wrangle at his first meeting.

8. The formal conclusion was that further discussion would take place at another informal meeting of foreign ministers on 8/9 May, with the Presidency taking further soundings in the interval.

9. I propose to let you have a note for this weekend, setting out some thoughts which you might usefully put to Mr. Pym personally, if you have the opportunity of a private talk with him before the 8/9 May meeting. I think he may need and welcome a little bolstering of this kind to prepare for the tough and demanding line which he will need to take.

(J. G. LITTLER)

CONFIDENTIAL

FROM: J O KERR
Date: 28 April 1982

cc: Chief Secretary
Financial Secretary
Sir D Wass
Sir K Couzens o/r
Mrs Hedley-Miller
Mr Kemp
Mr Edwards
Miss Court

MR LITTLER

EC BUDGET NEGOTIATIONS

The Chancellor was grateful for, but disturbed by, your account this morning of yesterday's Foreign Affairs Council in Luxembourg. He agrees that he will have to speak privately to the Foreign Secretary, and perhaps also to the Prime Minister, and looks forward to receiving your further note. The point which bothers him most is the pressure from our partners for a Budget deal of only 3 years duration.

J O KERR

30/4/82. PS/Chancellor

Please copy to Chief Secretary
Financial Secretary
Sir K. Couzens
Mr Littler
Mrs Hedley-Miller
Mr Edwards

CONFIDENTIAL

Qz.02550

MR COLES

cc: Private Secretaries to:
The Foreign and Commonwealth Secretary
The Chancellor of the Exchequer
Mr Hurd
Sir Robert Armstrong

2. return to me, tonight, with the spare copy.
30/4.

30 MAY MANDATE: NEXT STEPS

1. The meeting of the Foreign Affairs Council to discuss the Mandate in Luxembourg on 27 April established for the first time where the other Member States stand on figures. It appeared that, with certain reservations by individual countries, the others are prepared to offer refunds of 800 million ecus a year for 3 or 4 years. This would be less than 50% of the latest Commission estimate of our unadjusted net contribution for 1982, namely 1620 million ecus. Assuming that this figure rose in line with inflation and that the average Community inflation rate is 8% a year, then the effect of an 800 million ecus flat rate refund would be as follows:-

Year	Unadjusted net contribution	Refund	Net contribution after refunds
1982	1620	800	820
1983	1750	800	950
1984	1890	800	1090
1985	2041	800	1241

There is, of course, a wide margin of error around all such estimates which is why we want a percentage sharing formula and not a flat-rate.

2. 800 million ecus is clearly not the last word of the others. (We know that the French have been thinking of 1100-1200.) In any case, there is an inconsistency between insistence on a flat rate refund and accepting the Thorn/Tindemans proposals as a basis for negotiation. But neither 800 million ecus a year nor a 50% sharing of our unadjusted net contribution is anywhere near the Government's position which is that the refunds should be 90%.

CONFIDENTIAL

3. The next meeting of Foreign Ministers to discuss the Mandate will be on 8/9 May. The Agriculture Council this morning came close to agreement on a package for farm prices. The next meeting is scheduled for 10 May in the hope that the budget problem will be solved by Foreign Ministers the day before. The pressure to settle on 8/9 May will therefore be high and it is likely to be the occasion of the first really serious negotiation about figures. A meeting of Ministers directly concerned has been arranged for 5pm on Thursday 6 May, under the Prime Minister's Chairmanship, to consider the extent of the Foreign Secretary's authority to negotiate at the 8/9 May meeting. A further note will be submitted next week to serve as a basis for that discussion.

4. This minute is concerned with a more immediate problem - namely how to get Monsieur Tindemans and Monsieur Thorn to discharge their responsibility to lead the negotiations to a conclusion. Both are ineffectual by comparison with their predecessors in 1980, Signor Colombo and Mr Roy Jenkins, who acted as brokers during the negotiation of 30 May - and Monsieur Thorn is positively hostile to our point of view. They both give up easily and have now taken umbrage at the way their previous attempts at achieving a settlement have been rejected. This means that there is a real risk that neither will take any initiative before, or at, the 8/9 May meeting. If they do not, then it is highly probable that the other Member States will not feel it right to move up from their 800 million ecus figure so that the Foreign Secretary will be obliged to be equally unmoving. The result could be a collapse of the meeting in an acrimonious atmosphere. This would be particularly unfortunate because the sanctions against Argentina expire on 16 May and the question of extending them is also to be discussed at the 8/9 May meeting.

5. Following discussion this morning with Sir Michael Butler and officials from the Treasury, FCO and MAFF, I would now like to propose that Ministers consider the case for applying a carefully calculated stimulus to the two Presidents' will to act. This could take the form of a personal message from the

/Prime Minister

Prime Minister conveyed by a suitable emissary. The visit would have to be made next Tuesday since it is the only day on which Monsieur Tindemans is likely to be available in Brussels. Mr Hurd has agreed to act as the emissary if the Prime Minister and the Foreign Secretary wished.

Substance of the message

6. The main objective would be to convince the two Presidents that 800 million ecus is a very unreasonable offer to the United Kingdom and provides no scope for agreement. We should state a figure for what we regard as a very modest net contribution - something of the order of 175 million ecus in 1982 - and explain that, although this is not our last word, we see no point in negotiating unless the others change their position substantially from the totally unreasonable line they took with the two Presidents on 27 April. We should explain that even though the two Presidents do not like to work on the basis of the concept of net balances, the final settlement will have to be presented as a percentage of our whole net contribution to the House of Commons and to the British public because of the history of this affair. Furthermore the contribution we are prepared to make is additional to our contribution to the unallocated budget and to the resource transfers on net food imports from other Member States. We should say that we are prepared to co-operate with the two Presidents in dressing up the solution so as to avoid offending susceptibilities in other Member States and we should confirm that, for that reason, we are prepared to negotiate on the basis of their non-paper. But there can be no agreement unless the resulting refunds are in total a defensible proportion of our whole unadjusted net contribution.

7. This would be regarded as a tough message and there could be some psychological benefit in indicating flexibility on at least one specific point in Lord Carrington's letter to Monsieur Tindemans about the non-paper. Paragraph 3 of the non-paper (Annex A) is confined to the VAT element in the

 /contributions

contributions gap. Lord Carrington said that we must have this extended to cover the whole of the contributions gap, ie to include agricultural levies and customs duties. (The arithmetic of the various gaps is explained in the note at Annex B.) Monsieur Thorn told the Foreign Secretary on 27 April that other countries felt very strongly indeed that, no matter what was done on 30 May 1980, compensation should not this time be related to levies and duties because that called in question the principle of own resources. Monsieur Thorn said that this principle was more important to some countries than actual money. We, of course, think his arguments are nonsense; but it will be seen from the table in Annex B that agricultural levies are relatively unimportant by comparison with customs duties in 1982 - 75 million ecus compared with 250-400 million ecus for customs duties. Levies are unlikely to become a larger proportion in future years. Ministers may therefore wish to consider whether to modify our demand to one that paragraph 3 be extended to cover VAT, plus customs duties only, ie without levies. This would in fact be a major concession of principle on our part - and not without the risk of encouraging demands to go further (extension to duties, etc). Mr Hurd would therefore have to make it clear that we were not prepared to see our position eroded by further similar concessions and were offering this arrangement only because we hoped that an effort to respond to the points put to the Foreign Secretary on 27 April would enable the Presidents to promote a more constructive meeting on 8/9 May.

8. On duration, Ministers have already agreed that we could accept the replacement of the proposal in the non-paper for a 3 year agreement, followed by a new negotiation for the next two years, by a 4 year agreement with a 5th year to be negotiated, provided of course that there was also provision for a review of the arrangement as a whole. (My minute to you of 1 April and your reply of 2 April refer.) This change in our position has not yet been communicated to the other Member States and Mr Hurd could mention it as further evidence that we are prepared to negotiate.

/9.

Message to Chancellor Schmidt

9. Officials are agreed that it would be tactically a good move to send a written message to Chancellor Schmidt in response to his telephone call to the Prime Minister on 29 April. The farm package now emerging in the Agriculture Council is a good deal more expensive than the Commission's original proposal and this point can be used to convince Chancellor Schmidt that it would not be reasonable to expect the United Kingdom to break the link. A draft message to Chancellor Schmidt is submitted at Annex C for approval.

Recommendations

10. The agreement of the Prime Minister, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer is sought for the following proposals:-

(i) The despatch of the message at Annex C to Chancellor Schmidt.

(ii) Authority for Mr Hurd to visit Monsieur Tindemans and Monsieur Thorn next Tuesday, 4 May, conveying the message on figures recommended in paragraph 6 above plus the concessions on the levies gap and duration described in paragraphs 7 and 8 above. A full speaking note for Mr Hurd to use is attached at Annex D.

11. If (ii) is approved, the Foreign Office need authority by about 1800 hours on Sunday 2 May to despatch a telegram of instructions to UKREP to fix appointments for Mr Hurd. The sooner the message goes to Chancellor Schmidt, the more effective it is likely to be.

D.H.

D J S HANCOCK

30 April 1982

ANNEX A

NON PAPER

Subject: specific details of items 2 and 3 of the document of 18 January 1982 from the Council General Secretariat

1. The Community will grant compensation to the United Kingdom for 5 years, starting in 1982.

2. The basic amount of this compensation will be set at a uniform level for 1982, 1983 and 1984 of [x million ECU]. This amount represents y % of the objective indicator for 1981. If this ratio between the compensation and the objective indicator varies in 1982, 1983 or 1984 by more than 10 %, a correction will be made on the basis of a Commission proposal, on which the Council will take a decision by a qualified majority.

3. A further correction will be made if the United Kingdom's V.A.T. share exceeds its GDP share. This compensation will represent z % of the difference.

4. The amount of compensation for 1985 and 1986 will be decided on by the Council before the end of 1984 acting unanimously on a proposal from the Commission.

ANNEX B

FORECAST OF GAPS IN 1982

million ecus

	One Commission estimate	Treasury estimates
Objective receipts indicator gap	1200	1000-1450
Levies and duties gap	295	475
(Of which, agricultural levies)		(75)
VAT gap	125	175-225
Unadjusted net contribution	1620	(say)1650-2150

As the above table illustrates, there are great uncertainties as to the size of our net contribution for 1982 - and, a fortiori, for the later years. These uncertainties relate mainly to the total size of the budget, whose agricultural component still cannot be predicted with any confidence even for 1982, and to our share of total receipts. They relate also to our share of gross contributions (where we believe the Commission figures to be too low) and the method of calculation used.

On the Commission figures shown, a 90 per cent compensation rate which excluded compensation for levies and duties would give us a refund of 1193 million ecus for 1982 - equivalent to 74 per cent of our net contribution before refunds.

On the Treasury's range estimates, a 90 per cent compensation rate which excluded compensation for levies and duties would give us a refund of 1075-1500 million ecus for 1982 - equivalent to some 65-71 per cent of our net contribution before refunds.

The levies element in the levies and duties gap averaged a little under 50 million ecus a year in 1980 and 1981. The Commission's 1982 budget figures imply, however, that it could be around 75 million ecus for 1982. A 90% compensation rate for the receipts gap, the VAT gap and custom duties gap (excluding levies) would be equivalent in 1982 to 86% of our total net contribution on the Commission estimate and 86-87% on the Treasury estimates.

ANNEX C

DRAFT MESSAGE FOR THE PRIME MINISTER TO SEND TO CHANCELLOR SCHMIDT

1. We talked on 29 April about the agricultural package emerging in Luxembourg, which you urged me to accept despite the fact that our budget problem is not yet solved. I explained to you that we had discussed this in Cabinet, following Francis Pym's discussions with his colleagues in Luxembourg on 27 April and had concluded that we must continue to insist that the two matters should be settled in parallel. I thought it might be helpful if I explained why we reached this decision.

2. The position of the United Kingdom under the Community budget arrangements without adjustment is regarded by everyone in this country, and not just by the opponents of Community membership, as entirely inequitable. Some of the other Member States seem to think that we are asking for a present and seem to regard the adjustment as unmerited generosity on their part. It is not, I assure you, how the matter appears in this country and I am very appreciative of the fact that you expressed sympathy for our basic point of view in your speech at Hamburg on 5 April. The offer put to Francis Pym on 27 April, by the Presidents of the Commission and Council, with the support of most other Member States, would have produced a level of compensation far below that agreed on 30 May 1980.

3. At the same time, there is no doubt that the proposals under discussion in the Agriculture Council affect our vital national interests. They include several important proposals on subjects, for example on milk, cereals and Mediterranean products, which were covered by the Mandate guidelines we discussed in November, when we agreed that decisions on all 3 chapters of the Mandate, including the budget, should be taken forward together. Moreover, I understand that, although reserves by several delegations remain, the package which is now emerging is likely to cost twice as much as the one

/originally

originally proposed by the Commission, which we already thought too expensive. In the absence of a budget settlement this package would thus add substantially to our net contribution. We could not agree to it in isolation.

4. I do not wish to give you the impression that I am unwilling to negotiate on the budget issue. This is not the case, but others must show that they understand the true scale of the British problem. I can assure you that I am as anxious as you to move forward soon to a solution of all these problems.

ANNEX D

SPEAKING NOTE FOR MR HURD TO USE

1. The Prime Minister is anxious to see this divisive controversy brought to a swift end in the interests of Community solidarity.

2. She has no wish to create problems for other governments with their farmers. But the two Presidents must understand that the proposals under discussion in the Agricultural Council affect the United Kingdom's vital national interests. They include several important proposals on subjects which were covered by the Mandate guidelines discussed at Lancaster House in November when the Prime Minister and her colleagues agreed that decisions on all three chapters of the Mandate, including the budget, should be taken forward together. The relevant subjects include milk, cereals and Mediterranean products. The package which is now emerging in the Agricultural Council is likely to cost twice as much as the one originally proposed by the Commission which we in the United Kingdom already thought too expensive. In the absence of a budget settlement, this package would thus add substantially to our net contribution. For these reasons, the Government could not accept the suggestion, put to Mr Pym at lunch on 27 April, that we should allow the agricultural settlement to be made in advance of the budget settlement.

3. Monsieur Thorn and Monsieur Tindemans explained to the Foreign Secretary on 27 April that they did not regard the concept of net balances as valid. However, they must accept it as a political fact that the problem is seen in these terms in the United Kingdom. The Community budget problem is a problem of equity - it is just not fair that a country with lower than average income per head should pay in so much and get back so little. The true measure of the extent of that inequity is the net balance. For reasons of Community solidarity we have made it plain that we are prepared to be a net contributor to the allocated budget on a modest scale. This remains our position and we are

/prepared

prepared to contribute something of the order of 175 million ecu in 1982 on the basis of the latest Commission estimates.

4. In addition, we shall, of course, be contributing about a fifth of the cost of the unallocated budget. And the two Presidents should remember that, in addition to these contributions to the Community, the UK transfers resources on a substantial scale outside the budget to the net food exporters. The contrast between our position in this respect and that of the net food exporters is part of the political problem in the UK.

5. 175 million ecus is not the Prime Minister's last word. But she sees no point in negotiating further on figures until the other Member States substantially change their position from the totally unreasonable suggestions made to the two Presidents in the bilaterals on 27 April.

6. On the other hand, the Prime Minister is prepared to co-operate in dressing up the solution so as to avoid offending the susceptibilities of the other Member States. That is why the United Kingdom agreed to negotiate on the basis of the non-paper. But the two Presidents must bear in mind that there can be no agreement unless the refunds are defensible as a proportion of the United Kingdom's unadjusted net contribution as a whole.

7. The Prime Minister has taken note of the strength of feeling expressed at the meeting on 27 April about Lord Carrington's suggestion that paragraph 3 of the non-paper should apply to the whole of the contributions gap and not just VAT. Even though she believes that the arguments advanced by other Member States are wrong in logic and in principle, she would, if it would help to produce a fair settlement, accept a version of the two Presidents' scheme which omitted agricultural levies from the contributions gap - ie so that paragraph 3 of the non-paper would cover

/the

the VAT gap and the corresponding customs duties gap alone. This might help those countries who believe that agricultural levies have a special significance in Community arrangements; yet it would still permit an acceptable solution for the United Kingdom on the size of the refunds - whereas the omission of customs duties would not. This is a concession of principle by the UK, and the Prime Minister hopes that it might encourage others to look at the problem in pragmatic terms.

8. The Prime Minister remains unhappy with the suggestion that there should be a totally new negotiation after only 3 years - which is the effect of paragraph 4 of the non-paper. She understands that the two Presidents made this proposal because some governments at least regard a new decision during the course of a 5 year agreement as a helpful presentational device. In view of this, she would be willing to agree to a modification of the non-paper so that the scheme in paragraphs 2 and 3 would apply to the first 4 years and paragraph 4 be amended to refer only to the last year, 1986. But it remains the UK position that there must be provision for a review of the arrangement as a whole.

SECRET

FROM: J.G.LITTLER
DATE: 30 APRIL, 1982

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Sir Kenneth Couzens
Mrs.Hedley-Miller
Mr. Edwards

EC BUDGET NEGOTIATIONS

You will have read the depressing second leader in the Times this morning (copy attached). None of the officials concerned in Whitehall is at present suggesting that we give up our blockage on agriculture, but FCO and Cabinet Office are shifting their views, primarily against the background of developments over the Falkland Islands, but also - and I suspect this might apply even if the Falkland Islands problem were not there - because they are increasingly itching to make some gesture which will advance the negotiations quickly.

Decision Points

2. The following points will arise between now and next week-end:

- there is a proposal to get Mr. Hurd to go to Brussels on Tuesday, 4 May, to try to encourage the Belgian Presidency and the Commission to work for new developments at the next general meeting;

- the next general meeting will be an informal session of Foreign Ministers on the week-end 8/9 May, and instructions will be needed. Nobody supposes that a final result could be achieved at that meeting, but

- there is a need for Ministers to take stock of the outcome we are aiming for and might be able to get, and the Prime Minister has provisionally arranged a discussion with you and the Foreign Secretary next Thursday, 6 May, in the early evening.

3. You may well want to discuss some of this and the background to it set out below. I shall be in the office all of Tuesday, but in Brussels on Wednesday until I see you at dinner that night, then back again here on Thursday. Iam available at home this week-end if you wish to discuss whether the proposed visit to Brussels by Mr. Hurd should be stopped, or the terms of reference changed.

I kground: The Falkland Islands

4. There are several strands of thought here. I know that Mr. Pym is himself very worried that the situation could deteriorate over quite a long period (months, rather than a few weeks), during which we might fail to get strong United States support and lose Community support or have to fight desperately hard to retain any of it. You will know that the Italians and Irish are very reluctant participants in the temporary Community support we have received, although I would judge that a number of the others, particularly France and Germany, should have an interest in continuing to be robust. Points which arise are:

- there could be difficulty over renewal of the Community ban on imports from Argentina, etc., on 19 May. FCO officials are worried that, if we appear to be digging in over the budget, this might turn the Community against us on the Falkland Islands; I think they are also worried that, if it came to the point of our losing Community support and there were any link between this and our failure to be accommodating over the budget, political and public reactions to the Community in the United Kingdom would be made much worse. I would have expected others in the Community to see the disastrous effect all round of appearing to charge us a price for support over the Falkland Islands, and that we could see a conspiracy to avoid that result. I also think that the FCO, under the pressure of immediate events, are losing sight of the longer-term damage which would be done by concessions on the budget to buy support over the Falkland Islands;

- the FCO see our political relationship with the Community getting continuously worse between now and the end of June. they urge that we therefore need to settle the whole budget question quickly, and cannot afford to wait for the effects of our blocking agriculture to have cumulative effect. They foresee riots of European farmers in June linked with criticism of the United Kingdom over the Falkland Islands, leading to an irretrievable breakdown. I accept that a disaster scenario of this kind is among the possibilities; but I find it difficult to accept it as a probability, to the extent of persuading me that precipitate action is needed on the budget negotiation;

- Mr. Hancock is influenced by the point immediately above, but also advances a point with which I do agree: that the Falkland Islands crisis will make it difficult to the point of impossibility for us to use, or even effectively to threaten, the sanction of withholding payments. I take the view that it becomes the more important that we leave the agricultural weapon to have its effect.

5. I had the impression, partly from his silence, that Sir Michael Butler takes a rather less gloomy view on the first two points. At one stage he seemed to imply disbelief in the idea that lack of progress on the budget would greatly endanger the prospects of a renewal of Community support on imports etc on 19 May.

I frankly discount this idea altogether. GH

Background - Agriculture

6. The negotiations on agriculture have been very nearly completed, and the few outstanding points could be settled at a single meeting, once it were known that the budget issue was out of the way. The prospective outcome, which we cannot now re-open, is very unsatisfactory. Mr. Fitchew, who is this afternoon at a meeting to take stock, will be reporting in more detail later. But we have a general rate of price increases of nearly 11%, there is considerable potential cost to us on Mediterranean produce, on wine and on milk, and we have very little of direct UK advantage to show. The budget impact of all this, both in total and on the UK net position, is likely to be at least as bad as we have always feared.

7. When this news was given at the meeting of officials this morning, it served usefully to temper the enthusiasm for concessions on the budget and strengthen the approach to drafting of a message for the Prime Minister to send to Chancellor Schmidt (following a telephone conversation in which he pressed, and she refused, breakage of the link between agriculture and the budget), to explain just how bad the agriculture result is for us, in spite of our efforts.

Background - Next Steps

F. Affairs (inc.)

8. As I reported to you briefly, the meeting last Tuesday was very unsatisfactory - retrograde on several points. It is true that there was a procedural advance, to the extent that the other 9 have now more or less put a financial offer on the table, which they have not done before. But it is derisory, amounting at best to some 50% refund

of our contribution (and at worst, since it takes the form of a lump sum and there is considerable risk of our total contribution rising above present estimates, a good deal less than this).

9. The next general meeting is the week-end of 8/9 May of Foreign Ministers, in principle without advisers, and it will not be an easy occasion for Mr. Pym. The agenda includes discussion of the Falkland Islands and prospective extension of the import ban, as well as the budget negotiations.

10. There is a provisional plan to hold a meeting of Agriculture Ministers on 10 May - subject to progress having been made on the budget over the week-end. This was obviously designed to put additional pressure on us, but there seems to be some recognition that sufficient progress is unlikely, and a general willingness to postpone, particularly if there is some, but insufficient, progress at the previous budget meeting. I cannot see that there is any disadvantage to us in postponement of the agriculture meeting, but whether held or not, it should not be allowed to become a point of pressure.

General Approach

11. After prolonged argument among officials this morning, we reached an uneasy compromise. The starting-point was to have been a hastily prepared draft which was deplorably weak and contained major concessions. The authors had second thoughts, and partly as a result, partly in response to my arguments, what was produced was the minute to No 10 ~~draft~~ which will reach you later. ~~I now attach~~. I have not agreed to this, and it is clear that the Prime Minister will want to know whether you are content or not, before she endorses it. As you will see, it envisages sending Mr. Hurd to Brussels on Tuesday (appointments would have to be made on Monday, so that the Prime Minister will need to hear from you by Sunday evening) with a message which is pretty firm in general, but offers illustratively a particular concession, one which is in itself reasonably limited in size, but cannot be offered without some risk of showing weakness, and must therefore be hedged about with fairly strong reservations.

Views of Treasury Officials

12. I accept that Mr. Pym cannot approach the meeting on 8/9 May without any constructive statement to offer. As a minimum, he should make explicit what the UK would be prepared to settle for. This is the

kind of move which the other 9 made last Tuesday - and in doing so they stepped further back from some of the hints and indications given earlier. I would envisage that an appropriate statement for us to make would be one which said these things:

- our position is 90% of net contribution, leaving us what we mean by "modest" UK contribution after refunds, justified by the fact that we are negotiating only on a part of the costs to the UK of Community budget and other arrangements;

- an indication that we would be prepared to negotiate (in effect a hint of movement to, say, 85%);

- an indication that we would also be prepared - if others insist on complications - to dress up the figures to meet theological and other worries, provided that the dressing-up process does not involve a significant element of risk of departure from our basic net contribution objective in successive years;

- in the context of the immediately preceding point, the notion of not including levies in the method of calculating our net contribution for refund purposes would perhaps be admissible (indeed better than some others), but we should not be too hasty in offering this kind of idea, lest it provoke other constructive and costly suggestions;

- our position would of course also include an insistence on 4 + 1 years of operation, with a review (and no nonsense of the 3-year limit which you immediately picked up on my earlier report).

13. I believe myself that it should be possible to handle a brief of this kind at the 8/9 May meeting without precipitating complete deadlock or giving the impression of intransigence. I even believe it would be possible for Mr. Hurd to go to Brussels with a message on these lines, in advance, and use it as a basis for persuading the Presidencies to look for a more constructive solution.

. But you should know that I and Treasury colleagues were totally isolated on this point this morning, and the general theme was that all those who have direct experience of negotiation over the last 2 years are quite convinced that a message of this kind would simply confirm the Presidencies in their suspicion that the UK is not seriously trying for a settlement, and that a breakdown is the only answer.

15. I therefore, against the urgings of Treasury colleagues, explored with the others how we could turn a message which gives more prominence to the levies point into something acceptable. The minute by Mr. Hancock to No.10 of which you will get a copy later this evening embodies the result. Given the main point of levies being offered as a concession, it is about as strong as it could be made, and does not contain any direct hint of dropping below 90%.

Recommendation

16. It is unreasonable to expect Mr. Pym to be able to grapple with a complex negotiation packaging together different components and different measurements. I regard it as essential that he should keep the discussion directed to the outcome in terms of eventual UK net contribution after refunds or (the other appropriate way of looking at it) the percentage of our unadjusted contribution which is to be refunded.

17. As you will be well aware, different pieces of the net contribution problem and different percentages interact very dangerously. If we cannot get more than 80% and in the course of negotiation the element to which it is applied is reduced to 80% of the total, then we end up with only 64% (80% of 80%). And that is merely a simple example of the kind of erosion that we could suffer.

18. Against this background, there are arguments for and against the idea of conceding the exclusion of levies from the calculation:-

(a) In favour of it, it is probably the smallest such exclusion which could be invented and, although the amount involved is subject to some variation, the maximum for a few years ahead would be likely to be well below 100 million ecus in any one year, and averaging perhaps only 50 million ecus. Our loss would be confined to whatever percentage of refund was eventually agreed, applied to this modest figure.

(b) But any concession of this kind weakens our stand of principle on the need to have our whole net contribution considered in the refund calculations.

(c) The most important risk is that a concession of this kind at this juncture could all too easily be misread by the other 9 countries as a sign of weakness, and strengthen their resolve to limit our compensation still further.

19. If it were not for the background of the Falkland Islands, the pre-occupation of both Foreign Secretary and Prime Minister with that problem, and the very strong views, even on consideration and under challenge, of the assembled diplomats and negotiators, I would have no hesitation in recommending the omission of any concession on levies from Mr. Hurd's brief for Tuesday, 4 May, and would accept a resulting decision, if others pressed it, that in that case he should not go at all.

20. But I think I must invite you to reflect on the essentially political judgment of the interplay of these various worries stemming from the Falkland Islands. If you feel that there is substance in them, then I believe that the brief prepared for Mr. Hurd is appropriate, and all that you would need to do in endorsing it would be to emphasise the importance of his conveying to the Presidents our refusal to have our position eroded by further similar concessions and our insistence on judging the total outcome on a net contribution basis.

21. In any case, we must make these points very strongly in the preparation for Mr. Pym's encounter with the others on 8/9 May, for which the Prime Minister's meeting next Thursday evening will be the occasion. There will be a Cabinet brief for that meeting, and my own comments to you on it. My guess is that we shall have something near unanimity in looking for an outcome of 80% (the Foreign Office may say 75%) and that most of the argument will be on the tactics of getting there, and the speed we need to cultivate.

my guess is that we will start ambitious @ around 90 middle 85

22. Finally, I think it would be valuable if you could find an opportunity to talk with Mr. Pym privately next week. The points I would suggest you make to him need not be elaborate and not many. They are:

We need an up-date on protection figs in UK terms (£ m), with unallocated, int. costs, resource transfer costs etc

(a) Falkland Islands a complication. May affect our tactics, but must not damage eventual outcome. Deplorable political effect at home of accusation of having had to buy our way out.

(b) Essence of our bargaining position rests on two things: that we can hurt the others on agriculture (but effect needs time to build up); and that we have a strong case in justice (long history of promises that FEOGA would improve from our point of view, but it gets worse).

(c) We must believe that time is on our side, recognising that we shall have to live through some nasty diplomatic and political embarrassment to get anything like our objective.

(d) Domestically, must do better - a good deal better - than 66% refund of total contribution secured 2 years ago. Even on that, we have been lucky to do better in the event. If we had to pay full 34% it would not have looked so good. Anything worse would be a gift to Peter Shore and many others.

(e) Remember that we are negotiating on allocated budget only. we also pay (and include in published expenditure figures) another £200 million or so on unallocated budget and [interest costs]? through effects of delays in payments, and we meet over £¼ billion off the budget on agricultural trade - all well-known to informed opponents.

[Would we give for this - and we PEWP tables, + how they wd. look after any alternative deal?]

(f) Breaking down different sections of contributions and receipts and applying different percentages and lump sums is very dangerous (results both unpredictable and sometimes far from intuitively obvious). Keep sights firmly on effect - in sequence of years - on total net contribution.

(g) Duration of 4 + 1 years minimum essential.

(J.G. LITTLER)

TIMES 30/4/1982.

TIME TO BE NICE TO EUROPE

There is just a chance that the Falkland Islands crisis will come to be seen in retrospect as a turning-point in British attitudes to the European Community. The prompt and unanimous show of solidarity by our European partners, contrasting with the awkward, even if necessary, show of neutrality by our American allies, has taken the British public by surprise. It may also have contributed to the unusually harmonious atmosphere in which this week's discussions in Luxembourg on Britain's payments to the EEC were conducted.

British ministers are clearly aware that this is not the moment, after the Community's remarkably swift agreement to back us with economic sanctions in the Falklands crisis, for more intemperate language about Europe taking "our" money. They know, and the British public should also be aware, that the decision to impose a total trade embargo on Argentina was not an easy one for any of our partners. It is more expensive for several of them than it is for us. In the Italian case it went against the natural instinct to support a country in which forty per cent of the population (including President Galtieri) are of Italian stock. In each European capital the foreign ministry had to argue vigorously to overcome the reservations of the economic ministries.

That all of them won their arguments in such a short time is almost miraculous, and their position will be made very difficult if Britain continues to take the narrow accounting approach to the Community which it has tended to take in the past. The Falklands affair should bring home to us the fact that Europe is much more than a question of payments in and out. It is a matter of belonging to a community capable of collective action to defend its interests and uphold its principles in a world where Britain on her own no longer cuts much ice.

This does not mean we should rush into a settlement of the budget issue which we believe unfair. It does mean that, in our calculation of British interests, we should assign a substantial and positive value to the promotion of harmony and cooperation within the European Community.

The latest offer from the other Community countries is for £1,340m spread over the next three years. It would probably leave the United Kingdom paying about £600m a year net to finance the EEC Budget on top of the cost of having to buy higher priced European food. That is too much. It is more than is consistent with Mrs Thatcher's goal of being a small net contributor to the Budget. So, even if we could be sure that the costs of Community membership in future years was entirely predictable, the proposal would not be good enough. It is possible that other Community countries recognize this and have deliberately pitched their opening offer at a level which gives them further room for manoeuvre.

How should Britain ensure that its negotiations over the next few weeks persuade the other Community countries to give ground while at the same time avoiding the creation of a new budgetary crisis? We have already made considerable concessions to the other EEC countries in one area where they have interests which we do not have, the question of farm prices. It looks likely that these will rise by about 11 per cent in the Community as a whole; what individual farmers receive will depend on the movement of their national currencies. This is a bigger rise than is good for Britain or, indeed, good for consumers in Europe as a whole.

Our partners would like us to formalize this agreement before we complete talks on the Budget question. The Government is reluctant to do so because it regards the farm prices issue as one of the strongest cards in our negotiating hand. In the long run, indeed, there is an inescapable logical connexion between the two problems, since it is the high cost of the CAP which makes the Budget so onerous and causes Britain to get less than her share of Community expenditure. But for this year at least, a goodwill gesture is surely in order: we should let the farm prices agreement go ahead while continuing to negotiate in a civilized manner for a just settlement of the Budget issue.

PM/82/30

PRIME MINISTER

30 May Mandate Negotiation

1. I have seen a copy of Mr Hancock's note dated 30 April on the next steps in the Mandate negotiation. I agree with its conclusions.

2. As we agreed at Cabinet the link between the Budget problem and CAP prices is the key to obtaining a satisfactory Budget settlement. We have now made it clear to our partners that we intend to maintain it. At the same time I believe we need to show them that we are not going just to sit tight but are prepared to negotiate constructively. With the Falklands import ban coming up for renewal in the middle of the month, it is particularly important that we achieve some progress at the meeting on 8/9 May and avoid a confrontation. To achieve this we need the Presidents of the Council and the Commission to play a more helpful role than they have been doing so far. An approach by Douglas Hurd on the lines proposed seems the best way to try and stimulate this. Douglas Hurd agrees.

3. I also agree that it would be useful for you to follow up your telephone conversation with Chancellor Schmidt by a message explaining our position on linkage.

4. I am glad we are to have an opportunity on 6 May to discuss the line I should take on 8/9 May with you and other colleagues concerned.

FP.

(FRANCIS PYM)

Foreign and Commonwealth Office

1 May 1982

cc: PS/Chancellor of the Exchequer
Sir R Armstrong

We spoke
on the phone -
I shd certainly
aim to see Pym,
if not Howe, soon

Chancellor.

The Hancock minute has gone to the PM tonight. So if you want to argue against it – or at least against the levies concession (nothing else is costly) – you ought really to do so tomorrow morning. I'll be at home: ditto Littler.

2. I've tried to discover from Giles how she will react. But he has no idea, since she hasn't focussed on this for some time.

3. I, like Geoff, am uneasy about the levies concession, but don't feel sure that its wrong. On the other hand, my guess is that the PM might a) have little faith in Thorn/Tinlemann b) instinctively prefer not to give anything until the others concede a bit. And my main worry is not over the concession as such, but on whether

Para 18 (c) of Litter.

4. If we were to hear that (contrary to my expectation) the PM had agreed all this, I would advise against re-opening it. — given his present pre-occupations. So I think I'll send No 10 again tomorrow am., once they've had time to do his box, and see if I can find out how the land lies.

DRI.

SECRET

C.
to see how this stands.
JOK.
5/V.

FROM: J O KERR
4 May 1982

MR LITTLER

cc Chief Secretary
Financial Secretary
Sir Kenneth Couzens o/r
Mrs Hedley-Miller
Mr Edwards

I had a word with F.P. in Cab today
- said v. willing to discuss with him
- replied 'I know the Chancellor is going to call us v. dear'

(Confirming b/(a) below)

EC BUDGET NEGOTIATIONS: YOUR MINUTE OF 30 APRIL

This minute briefly records developments over the weekend on the issues raised in Mr Hancock's submission of 30 April to No.10. It supplements the No.10 reply, which should, I understand, issue tomorrow.

2. After discussion with you on 1 May, the Chancellor instructed me to inform No.10 that:-

a. He was content with the proposed message to Chancellor Schmidt;

b. He was not content with the proposed speaking note for Mr Hurd to use with Tindemans and Thorn, and would wish para 7 of it to be deleted, since the concession on levies struck him as unwelcome and premature, and he was not convinced that Tindemans and Thorn were the best inter-mediaries, if a concession became necessary.

I reported accordingly to Mr Coles at No.10 and Mr Fall at the FCO. Mr Fall, while inclined to argue that some concession would be necessary, and that the proposed concession of levies would not be very damaging, thought that the Foreign Secretary might well agree that it would be premature for Mr Hurd to offer it today.

Secret

3. I understand that subsequent further advice to No.10 from the FCO and the Cabinet Office was that, if para 7 were knocked out of Mr Hurd's instructions, it would be better for him not to go to Brussels. The Prime Minister apparently shared the Chancellor's view on para 7: Mr Hurd's plans were accordingly dropped, and he has remained in London today.

4. The issues will clearly re-surface at the Prime Minister's meeting at 5.30pm on 6 May, which is to discuss, on the basis of a further Cabinet Office paper, how Mr Pym should handle the weekend meeting of Foreign Ministers on 8/9 May. The Chancellor agrees with you that it would be best if he could speak privately to Mr Pym in advance of that meeting; and I have accordingly taken soundings. For obvious reasons, it is proving difficult to pin the FCO down to a time, but there is a tentative plan for a short meeting between Herr Genscher's departure (after lunch and talks) and the No.10 meeting.

5. For briefing purposes, you should know that:-

a. The Chancellor strongly agreed with paragraph 18b and c of your minute;

b. He would like to be reminded of what outcomes at 80% and 75% - your para 21 - would mean in terms of prospective figures in UK (sterling) terms, including the unallocated Budget, interest costs, resource transfer costs etc, and in PEWP terms.

6. I should also report that Mr Hancock has warned me privately that he believes:-

a. That Mr Pym will outcome under very heavy pressure this weekend, when the link between the Budget/

Secret.

agriculture and the Falklands could become explicit, and

b. That he suspects that the French may before long threaten their partners with a choice between accepting qualified majority voting on CAP prices and accepting the introduction of French national aids.

JOK.

J O KERR

10 DOWNING STREET

From the Private Secretary

MR. HANCOCK

CABINET OFFICE

30 MAY MANDATE: NEXT STEPS

The Prime Minister saw your minute of 30 April and the minute of 1 May from the Foreign and Commonwealth Secretary over the weekend. I had also conveyed to her orally the views of the Chancellor of the Exchequer on your recommendations. Sir Geoffrey Howe did not believe that the concession proposed was necessarily the right one; and he considered that now was the wrong moment to offer a concession and that Tindemans and Thorn were the wrong people to offer it to. He also found implausible the last sentence of paragraph 4 of your minute, believing it unlikely that after the American decision to come down on our side over the Falklands, our partners would refuse to renew sanctions.

In the light of these views, the Prime Minister (as the FCO were informed on 2 May) decided that it would not be right for Mr. Hurd to visit Brussels for the purpose proposed. She minuted that she did not think the United Kingdom should make any concessions until the final negotiations, since we should only be driven to offer more at that time. The Prime Minister did, however, agree that the message to Chancellor Schmidt should be despatched (which I asked the FCO to arrange on 2 May).

I am sending copies of this minute to Brian Fall (FCO), John Kerr (HM Treasury) and David Wright (Cabinet Office).

A. J. COLES

4 May 1982

5/5/82.

CONFIDENTIAL

Qz.02553

MR COLES

cc: Private Secretaries to:-

The Foreign and Commonwealth Secretary
The Chancellor of the Exchequer
The Minister of Agriculture, Fisheries and Food
Sir Robert Armstrong

30 MAY MANDATE: MEETING OF FOREIGN MINISTERS ON 8/9 MAY

1. A meeting has been arranged under the Prime Minister's Chairmanship for 5.30 pm on Thursday 6 May to discuss the handling of the next meeting on the Mandate on 8/9 May. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture and Sir Michael Butler have been invited to attend.

2. The meeting of the Foreign Affairs Council on 27 April established where the other Member States at present stand on the figures which might apply for our refunds. It appeared that, with certain reservations by individual countries, the others are prepared to offer refunds costing 800 million ecus a year for 3 or 4 years. 800 million ecus would almost certainly be less than 50% of our unadjusted net contribution for 1982, whereas the UK objective agreed by Ministers is that the refunds should be 90%.

3. Positions are thus a long way apart. On the other hand, the other member states did indicate that they were prepared to accept the Thorn/Tindemans non-paper (Annex A) as a basis for negotiation. This will give us the opportunity to press for our objectives on duration, review and risk-sharing as already agreed by Ministers. (Our negotiating instructions as at present agreed are set out in Annex B.)

4. The meeting of the Agriculture Council on 28-30 April concluded with a price fixing package which was acceptable to most member states but subject to general reserves by the UK

/and

and Greece, and reserves on the agreement on wine by Italy and on beef by Ireland. In making a reserve on the price increases and the budgetary cost, the UK stated that progress on the three chapters of the Mandate had to be taken in parallel. Although the UK achieved improvements in several areas we imposed reserves on a number of specific points where the package fell short of our agricultural policy objectives.

5. From the UK standpoint the package is open to criticism in relation to the agricultural chapter of the Mandate. The average level of price increase is 10.3%. It is estimated by the Commission to be twice as costly as their original proposals and will thus make the UK budget problem still worse. In the milk sector no specific measures have been agreed to tackle the surplus problem, nor has the aim of reducing the gap between Community and world prices of cereals been implemented this year although a coresponsibility mechanism has been agreed for application in future.

6. The Agriculture Council is scheduled to meet again on 10/11 May and it is likely that the remaining reserves of other member states can be fairly readily disposed of, and a clear 9 to 1 position would then emerge.

7. Against that background, Ministers will need to consider at their meeting on 6 May:-

(i) whether the Foreign Secretary should have authority to go beyond Annex B at the meeting on 8/9 May without further reference to his colleagues in London;

(ii) what the Government should do if the 8/9 May meeting fails.

/8.

Prospects for a solution on 8/9 May

8. Decisions on tactics need to be informed by a realistic assessment of what is likely to be achievable this weekend. The gap between our position and what is offered by other member states is large - see paragraph 3 above. The French, in particular, are well dug in. President Mitterrand has apparently decided that the settlement must cost the French budget less than the 30 May settlement, which would, according to sources close to him, permit a refund of at most 1,200 million ecus in 1982, or 73% of the unadjusted net contribution forecast by the Commission estimate - namely 1620 million ecus. Statements by several French Ministers indicate that the Government has decided to do everything it can think of to avoid being "blackmailed" by our agricultural veto. If the 8/9 May meeting fails, they may decide to introduce national aids and to sit out the resulting crisis in the Community. Alternatively they may try to force through a majority vote on the price package and, although it seems unlikely that they would succeed, the crisis would be heightened by their attempt.

9. As the crisis deepens in May and June, pressures on the other member states' governments to secure a farm settlement will build up. On the one hand, this will mean that they will be increasingly anxious to settle the budget problem. On the other hand, their incentive to find a way round our veto, whether by national aids or majority voting, will be greatly increased. It seems doubtful whether agreement will be reached on 8/9 May, given the distance between our position and that of other member states, but we cannot rule out a serious effort by others to reach a settlement and the Foreign Secretary will need to be prepared to react if things go that way. If a serious negotiation did develop, it would be very damaging, particularly in present circumstances, if he were to refuse to take part in it. Therefore, if a real willingness to settle is shown, he may need to get in touch with his Ministerial colleagues over the weekend.

/10.

Figures

10. Sir Michael Butler's judgement is that it will be hard work to achieve every percentage point above a 66% refund. (66% is the same proportion as that underlying the 30 May agreement; but the UK has agreed that the new arrangement should be calculated on out-turn figures so that there would be no possibility of a repetition of the freak result of that agreement.) It should, in his view, be possible to achieve something in the range 70-80%, but it is too early to say how far up that range we shall be able to get.

Opening position

11. The Foreign Secretary's opening position on figures at the meeting on 8/9 May might be on the following lines:-

> "The UK does not regard 800 million ecus (probably less than 50% of our uncorrected net contribution) as a serious proposal. Our position continues to be that we are willing to be a net contributor on a very modest scale, by which we mean something of the order of 10% of our net contribution before refunds (say, a net contribution after refunds of approaching 175 million ecus for 1982 on the basis of the Commission's latest estimates for our unadjusted net contribution in that year). But this is not necessarily our last word on the figures and what happens next depends on what response we get from other member states. We have already made it clear that we are willing to have the agreement expressed in terms of components of our net contribution, on the lines of the non-paper, if that is helpful to other member states, provided that all the relevant components are covered and the implications for our net contribution are clear."

/The

The aim would be to focus the negotiation as far as possible on our net contribution and to establish an initial negotiation "bracket" of 50% to 90% of our uncorrected net contribution.

Subsequent flexibility

12. Ministers may feel able to approve the following guidelines for the conduct of the subsequent discussions:-

a. it would not be right to settle for refunds amounting to less than 80% of our unadjusted net contribution at the discussion on 8/9 May;

b. we should be prepared to relax our 90% figure in return for agreement by the others to raise their offer substantially above its existing level;

c. we should not, however, go below 85% unless and until the others have come up to 66% or more.

See our Annex A

Possible concession on levies

See our Annex B

13. If we appear to be entirely unyielding in our negotiating style, there is a risk that the French will win the others over to their point of view, so that the other representatives will go back to their capitals convinced that in the end we shall give way. In order to prevent this, Ministers may wish to give the Foreign Secretary authority to show some flexibility in our position, provided that our position on figures (see previous paragraph) is not thereby jeopardised. One possible concession which Ministers might wish to consider concerns the definition of the 'contributions gap'. Paragraph 3 of the non-paper (Annex A) is confined to the VAT element in the contributions gap. Lord Carrington's letter to Tindemans about the non-paper said that we must have this extended to cover the whole of the contributions gap, ie to include agricultural levies and customs duties. (The arithmetic of the various gaps is explained in the note at Annex C.) Other countries feel strongly that, no matter what was done on 30 May 1980, compensation should not this time be related to levies and duties because that would call in question the principle of own resources. We, of course, think this argument is nonsense; but it will be seen from the table in Annex C

/that

that agricultural levies element is much smaller than the customs element in 1982 - 75 million ecus on the Commission's 1982 budget figures compared with 400 million ecus for customs duties. The levies element could vary in later years but is likely to remain a relatively small part of our total budget problem.

14. Ministers may therefore wish to consider whether to modify our demand to one that paragraph 3 be extended to cover VAT plus customs duties only, ie without levies. This would in fact be a major concession of principle on our part and not without the risk of encouraging demands to go further (extension to duties, etc). It should not therefore be offered, if at all, unless the Foreign Secretary judged that it could produce some loosening up of our partners positions. If so, he might need to go no further on 8/9 May than indicate that he would be prepared to discuss with his colleagues modifying our demand to exclude levies if that would help them to solve the problem.

A gesture on the "over-payments"

15. The unexpected effect of the 30 May agreement has almost certainly increased the determination of other member states to drive a hard bargain this time. We have been arguing that we are still a substantial net contributor in 1980 and 1981 taken together; that the French have done much better than expected on 30 May, as well as us; and that no other member state has had to pay in more than they contracted to pay on 30 May. Even so, it is a fact that we agreed to contribute far more than now expected. Ministers may therefore wish to consider giving the Foreign Secretary discretion to make a gesture during the 8/9 May meeting if he judges that it would clinch a settlement. A simple gesture involving a once-for-all cost to the UK would be to agree to waive our right to those refunds to which we are entitled in respect of 1981 but which are not yet approved. This would avoid the need for the other member states to take any more decisions about programmes to benefit us in respect of 1981. It would cost us some 145 million ecus net

/and

and save them a similar amount. But we would still receive a further payment of about 127 million ecus in respect of 1981 in August once we are able to certify that the expenditure concerned has in fact taken place. It would increase our net contribution for 1980 and 1981 combined from 10% of our unadjusted net contribution for those years to 14%.

16. This gesture could have considerable political mileage, especially in relation to the French government who could claim to have recovered some of the ground given away by Giscard. But there is a considerable danger of signing off a substantial sum of money without getting anything in return. This concession might therefore be made, if at all, only if the Foreign Secretary judged that it would precipitate an agreement. If made too early, it could provoke other member states to demand very much more expensive ideas for dealing with the "over-payment".

If the 8/9 May meeting fails to reach agreement

17. Our chances of a successful outcome eventually will be reduced if the other member states and the Commission are able to say that we are making no effort to help find a solution. We need to wear down the opposition to our point of view by frequent contact. Therefore if the meeting produces no solution, as is probable, and if the tactical situation does not argue against it, we should work to ensure that the Presidency finds a new date for a resumption of the negotiations on the budget after about a week's pause for reflection.

Technical points

18. There are certain extra financial risks to the UK in the non-paper as drafted. These relate particularly to the 'tolerance margin' (see Annex C, paragraph 4) and the payment of refunds 'net' of our contribution towards them. It will clearly be essential to resolve these issues in such a way that we could be sure of actually receiving the rates of refund agreed at Ministerial level.

/19.

One year solution

19. The Foreign Secretary has asked officials to consider the possibility of a one year solution. The argument in favour of this course is that we might secure a better deal on the Falkland Islands this year and on the Mandate next year if they could be separated in time. Monsieur Thorn has already suggested this expedient as a way out of the present impasse.

20. The 30 May agreement provides that, if longer term arrangements cannot be agreed in time, a solution will be implemented for 1982 "along the lines of the 1980-1981 solution". We might appeal to this agreement and argue for a repetition of the proportionate split underlying the arrangement negotiated for 1980 and 1981, ie in effect a 66% refund.

21. But this would not remove our difficulties in the current negotiations. The other member states would almost certainly argue that:-

(i) as the UK agreed to a net contribution of 609 million ecus for 1980 and 730 million ecus for 1981, we should accept a basic figure of 850 million ecus for 1982;

(ii) that figure should be further increased (ie the refund further reduced) to take account of the "over-payment" in 1980 and 1981; and

(iii) the UK should give a solemn undertaking not to use the 1983 farm price negotiations as a means of achieving a better deal for subsequent years.

22. Even if we did get agreement on a 66% refund, which seems unlikely, we should thereby have created a most damaging precedent for next year's negotiations and it is very difficult to see how we would ever get agreement to a higher percentage refund for 1983 and the following years.

Points for decision

23. Ministers are invited to consider the following questions at their meeting on 6 May:-

(i) Is it agreed that the Foreign Secretary's opening position on figures should be as proposed in paragraph 11?

(ii) Are the guidelines on subsequent flexibility, as suggested in paragraph 12, agreed?

(iii) Should the Foreign Secretary have discretion to offer the possible concession on levies in the circumstances described in paragraph 14?

(iv) Should the Foreign Secretary have discretion to offer a gesture on the "over-payment" in the circumstances described in paragraph 16?

(v) Do Ministers accept the arguments against a one year solution in paragraphs 20-22?

(vi) Is it agreed that the Foreign Secretary should seek further authority by telephone if he judges that a serious attempt at reaching agreement is being made - see paragraph 9?

(vii) If the 8/9 May meeting fails to reach agreement should we aim to ensure that a new date is fixed for further negotiations after about a week's pause for reflection - see paragraph 17?

(viii) Subject to any new decisions under (i) - (vii) above, is the present negotiating authority as defined in Annex B confirmed?

D.H.

D J S HANCOCK

5 May 1982

ANNEX A

NON PAPER

Subject: specific details of items 2 and 3 of the document of 18 January 1982 from the Council General Secretariat

1. The Community will grant compensation to the United Kingdom for 5 years, starting in 1982.

2. The basic amount of this compensation will be set at a uniform level for 1982, 1983 and 1984 of /_x million ECU_/. This amount represents y % of the objective indicator for 1981. If this ratio between the compensation and the objective indicator varies in 1982, 1983 or 1984 by more than 10 %, a correction will be made on the basis of a Commission proposal, on which the Council will take a decision by a qualified majority.

3. A further correction will be made if the United Kingdom's V.A.T. share exceeds its GDP share. This compensation will represent z % of the difference.

4. The amount of compensation for 1985 and 1986 will be decided on by the Council before the end of 1984 acting unanimously on a proposal from the Commission.

ANNEX B

NEGOTIATING INSTRUCTIONS PREVIOUSLY AGREED BY MINISTERS

These instructions relate to the "non-paper" of Annex A. They were most recently set out for Ministers in Mr Hancock's minute of 1 April to Mr Coles and take account of the Prime Minister's comments in Mr Coles' reply of 2 April.

(i) Duration The UK should aim for a five year settlement but could accept if necessary a five year agreement whereby firm arrangements covered only the four years 1982-85 inclusive, with the arrangements for 1986 to be decided by the formula in paragraph 4 of the non-paper.

(ii) Review A review at the end of the period is essential, but it need not be expressed in terms which appeared to prejudge whether compensation should continue after the end of the 5 year period.

(iii) Flexibility or "risk sharing formula" The agreement needs to provide for compensation to be adjusted automatically to changes in circumstances to avoid an annual negotiation over figures (see paragraph 2 of the non-paper). The UK would propose that if the ratio gave too much compensation, the refund would be reduced by an agreed percentage of the excess; an d if the ratio gave the UK too little, then the refund would be increased by the same percentage of the shortfall. Ideally the risk sharing percentage should be the same as the basic compensation percentage - ie Y % of the objective indicator for 1981.

(iv) Tolerance Margin The UK should argue for the tolerance margin proposed in paragraph 2 of the non-paper to be reduced from 10% to 5% and that the risk sharing formula should apply to the whole of the excess or shortfall if the margin is greater than 5% of the objective indicator.

(v) Contributions Gap The UK should insist that the whole of this is covered, and not just the VAT element.

(vi) Financing The UK could accept ad hoc methods of financing outside the own resources system, such as the use of Article 200 of the Treaty, provided that such a device does not open up a means of evading the 1% ceiling. If necessary to secure an otherwise acceptable settlement the UK could accept a commitment to review the own resources system in the context of enlargement, but only on the clear condition that there is no commitment whether explicit or implicit to raise the 1% VAT ceiling.

ANNEX C

FORECAST OF GAPS IN 1982

million ecus

	One Commission estimate	Treasury estimates
Objective receipts indicator gap	1200	1000-1450
Levies and duties gap	295	475
(Of which, agricultural levies)		(75)
VAT gap	125	175-225
Unadjusted net contribution	1620	(say)1650-2150

As the above table illustrates, there are great uncertainties as to the size of our net contribution for 1982 - and, a fortiori, for the later years. These uncertainties relate mainly to the total size of the budget, whose agricultural component still cannot be predicted with any confidence even for 1982, and to our share of total receipts. They relate also to our share of gross contributions (where we believe the Commission figures to be too low) and the method of calculation used.

On the Commission figures shown, a 90 per cent compensation rate which excluded compensation for levies and duties would give us a refund of 1193 million ecus for 1982 - equivalent to 74 per cent of our net contribution before refunds.

On the Treasury's range estimates, a 90 per cent compensation rate which excluded compensation for levies and duties would give us a refund of 1075-1500 million ecus for 1982 - equivalent to some 65-71 per cent of our net contribution before refunds.

The levies element in the levies and duties gap averaged a little under 50 million ecus a year in 1980 and 1981. The Commission's 1982 budget figures imply, however, that it could be around 75 million ecus for 1982. A 90% compensation rate for the receipts gap, the VAT gap and custom duties gap (excluding levies) would be equivalent in 1982 to 86% of our total net contribution on the Commission estimate and 86-87% on the Treasury estimates.

If however the receipts gap for 1982 exceeded that for 1981 by more than 10 per cent, these refund figures would be reduced by up to some 125 million ecus under the risk-sharing provisions in the Presidency non-paper, as now interpreted by the Commission. The percentage refund would fall correspondingly by some 5½-7½ per cent.

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CHANCELLOR

From: A J C EDWARDS
6 May 1982

cc Chief Secretary
Financial Secretary
Sir D Wass
Sir K Couzens
Mr Littler
Mrs Hedley-Miller
Mr Matthews
Mr Peet
Mr Marshall
Mr Ridley

now likely to be around 5 years, effort time, still uncertain

EC BUDGET NEGOTIATIONS : MEETING WITH MR PYM

At your bilateral meeting this afternoon, Mr Pym will doubtless wish to share with you his worries about the impact of the Falklands crisis on the budget negotiations. You will doubtless wish to stress the importance of holding out for a really good budget settlement, even though this is likely to leave the UK in a rather uncomfortable position vis a vis other member states over the next few weeks.

2. There are two main areas which you will wish to discuss:

(a) objectives and general approach, and

(b) strategy for the Foreign Ministers meeting.

Objectives and general approach

3. You may like to draw on the following points under this heading:

i. You do appreciate how much the Falklands crisis has complicated Mr Pym's task. Our tactics cannot ignore this.

ii. But the government badly needs a really good budget settlement - substantially better than the 66 per cent refund of our total net contribution secured two years ago. Anything less than a substantial improvement on this would be a gift to Peter Shore and many others.

iii. Three main reasons why good settlement needed:

(a) Serious implications for public attitudes towards Community in longer term (and the Party most closely identified with Community) if we have to live with bad settlement over next four or five years. Must aim to remove impression that UK is being exploited financially by other member states.

(b) Deplorable political effect at home of any impression that Government has had to trade a bad budget settlement for support over Falklands.

(c) A great deal at stake in public expenditure, PSBR and balance of payments terms. Negotiation relates to allocated budget only. We also pay another £200 million or so on unallocated budget and through effect of delay in refund payments. And we make heavy losses off the budget on agricultural trade: a further £¼ billion a year. All well-known to informed opponents. (See table at Annex C.)

iv. UK's bargaining position rests on three things: (a) our ability to hurt the others on agriculture (but effect needs time to build up); (b) our strong case in justice (UK's relative economic position and long history of promises that FEOGA would improve from UK point of view, but it gets worse: witness the current price settlement); and (c) their knowledge that if their intransigence were to force the UK, sooner or later, to leave the Community, the financial as well as political costs to them would far exceed those involved in paying us a reasonable level of refunds.

v. Given agricultural price lever, time is still more on our side than theirs. True that others may threaten to evade our embargo on the price settlement by majority voting or national aids. May even be hint of linkage with support over Falklands. But probably a large element of bluff in this. Hard fact is that good settlement unlikely to be attainable without considerable element of continuing crisis and cliff-hanging.

Strategy for Foreign Ministers' meeting

4. The Prime Minister's meeting later in the afternoon will be discussing this, with the help of Mr Hancock's latest note. Also relevant is the Prime Minister's comment of last weekend that the United Kingdom should not make any concessions until the final negotiations, since we should only be driven to offer more at that time.

5. You may like to stress the importance which you attach to the following points:

i. Focusing on the net contribution. Likely to be much to UK's advantage if we can focus the negotiation on the UK's net contribution and what percentage of it the others will refund us. Nothing but pain and grief in discussing 'gaps', tolerance margins and so on at Ministerial level. If others insist on this, we need to keep sights firmly on effect on total net contribution over period of years.

ii. UK's initial position. Advantage in responding early on to the question put to us last time: we would regard a refund of 90 per cent of our net contribution as reasonable. But prepared to be flexible provided others are too. Try to establish negotiating bracket in this way between our 90 per cent and their offer which implies 50 per cent or less.

iii. The importance of 66 per cent. Be prepared to deal effectively with argument that a 66 per cent refund, as implied in the 30 May arrangements, is good enough. (See Annex ~~A~~ B.)

iv. Levies concession. Wrong in substance and in tactics to offer concession on levies discussed in paper by officials (see Annex ~~B~~ A).

v. 'Overpayments' for 1980 and 1981. Wrong to hint at any concession on this until the others have come up to 66 per cent at least. For consideration then whether, in run-up to final settlement, we might give hint of possible willingness to forgo refunds for 1981 not yet decided provided that the others in return will improve their offer substantially. Obvious advantage in obtaining as high a refund percentage as possible for the future. But will need careful handling. Must ensure that we extract substantially better final deal, and that the improvement we obtain is worth more than the conession.

vi. Duration. Need to stick with minimum of 4 plus 1 years.

viii. One-year solution. The arguments against this in Mr Hancock's note are surely decisive.

6. Mr Littler has seen this brief and endorses it.

AJCE

A J C EDWARDS

ANNEX A

ARGUMENTS AGAINST A CONCESSION ON LEVIES

(i) Such a concession would mean that the refund arrangements would no longer cover the whole of our net contribution - a decidedly retrograde step compared with the 30 May arrangements.

(ii) It would be at odds with the objective of getting the negotiation focused on the percentage of our net contribution which is refunded to us.

(iii) Since the root of our budget problem lies in the CAP and its financing, it would be a dangerous step to concede that one element of the CAP imbalance should be left out of account.

(iv) The amount of money involved is significant and subject to variation with world prices and harvests: the Commission's own budget figures imply that upwards of 75 million ecus would be at stake for 1982. To offset this, and the risks involved, we should need to negotiate a rate of refund on the rest of our net contribution perhaps some 4-5 per cent higher.

(v) It seems unlikely that the others would be impressed by such a concession, except possibly as an indication that the UK was 'on the run'. More probably the others would be encouraged to go on pressing for the exclusion of customs duties as well.

ANNEX B

REASONS WHY REFUND PERCENTAGE MUST EXCEED 66 PER CENT

(i) The 30 May 1980 arrangement applied in the first instance to two years only: we accepted it as a temporary arrangement in spirit of compromise - on the basis that the Community would find a more satisfactory longer term solution after discussion on the mandate.

(ii) The decisions which now seem likely to emerge from other areas of the mandate discussions, especially agriculture, will make the underlying UK budget problem worse, not better: the price fixing agreement now contemplated would add some 215 million ecus to the UK's net budget contribution in a full year (assuming no change in world prices).

(iii) There is a serious problem of public support for the Community in the UK. This is fuelled by the belief that financial arrangements which leave a less prosperous country like the UK with a massive net contribution to the budget and heavy financial penalties on agricultural trade outside the budget are totally unfair.

(iv) With the unexpectedly favourable outcome of the 30 May arrangements for 1980 and 1981, this problem has receded in recent months. The Community has become much more popular in the UK, without there being any obvious problems for other member states. This is immensely welcome to the British Government. We need to build on the prgress made, not put it into reverse.

ANNEX C

EUROPEAN COMMUNITY : POSSIBLE FINANCIAL COSTS TO THE UK (1982)

		£ million
Off-budget costs		
A.	Agricultural trade losses *	200 - 250
On-budget costs		
	Contributions to unallocated budget expenditure	
B.	Overseas aid	60
C.	Other	30
D.	Inflation effect of delay in UK refunds (taking one year with another)	90
E.	Net contribution to allocated budget** after UK refunds of	
	(a) 90 per cent	90 - 120
	(b) 80 per cent	180 - 245
	(c) 75 per cent	230 - 310
F.	Total budgetary costs and benefits excluding aid (C+D+E)	
	(a) 90 per cent case	210 - 240
	(b) 80 per cent case	300 - 365
	(c) 75 per cent case	350 - 430
Total financial costs		
G.	Total financial cost (-) after UK refunds (A+F)	
	(a) 90 per cent case	410 - 490
	(b) 80 per cent case	500 - 615
	(c) 75 per cent case	550 - 680

*Based on estimates for recent years

**The UK's uncorrected net contribution to the allocated budget for 1982 is assumed to lie in the range 1600-2150 million ecus

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CHANCELLOR

From: A J C EDWARDS
6 May 1982

cc Chief Secretary
Financial Secretary
Sir D Wass
Sir K Couzens
Mr Littler
Mrs Hedley-Miller
Miss Court
Mr Fitchew
Mr Matthews
Mr Peet
Mr Ridley

2

30 MAY MANDATE : MEETING OF FOREIGN MINISTERS ON 8/9 MAY

BRIEF FOR PRIME MINISTER'S MEETING AT 5.30PM TODAY

The final version of Mr Hancock's minute for the Prime Minister's meeting this afternoon differs from the draft which you saw last night. Mr Hancock has conveniently adopted most of the Treasury counter-suggestions which we wrote into his earlier draft. He has also added a list of points for decision at the end, which should greatly facilitate the despatch of business.

2. If the meeting discusses objectives and general approach, you may like to draw on the themes in the brief for your meeting with Mr Pym - with variations as appropriate in the light of your discussion with him.

3. The meeting will doubtless concentrate on the list of questions for decision in paragraph 23 of Mr Hancock's note. We recommend you to respond to the questions as follows.

(i) Yes. The 'opening position' suggested in paragraph 11 of the paper is the Treasury's version. It is designed to make the discussion concentrate as far as possible on the percentage of our net contribution which is refunded to us and to establish a negotiating bracket between refunds percentages of 50 per cent and 90 per cent, without sounding belligerent.

(ii) Yes. The guidelines on subsequent flexibility in paragraph 12 are again the Treasury's version. The significance of the 66 per cent refund level mentioned in that paragraph is that this is the percentage implied in the 30 May agreement for 1980 and 1981. You may like to make the point that we must be ready to answer the question why we are arguing for a higher rate of refund now than we accepted in the 30 May agreement (see Annex A below).

(iii) No. The concession on levies described in paragraphs 13-14 of the paper is objectionable on grounds of substance and tactics. (See further Annex B below.)

(iv) No - not in the circumstances described in Mr Hancock's paper. The 'gesture on overpayments' described in paragraphs 15-16 should surely not be made on the basis that in Mr Pym's judgment 'it would precipitate an agreement'. Everything depends on the nature of the precipitated agreement and how much we can improve it by hinting at a limited concession on 'overpayments'. A concession in this area would cost us over £80 million. It would have to be used as a bargaining counter, not just a 'gesture'.

In our view, the possibility of such a concession should not even be hinted at until the others have offered us a 66 per cent refund at least. As noted in our earlier brief, it would be for consideration then whether, in the run-up to a final settlement, we might give a hint of possible willingness to forgo refunds for 1981 not yet decided provided that the others improve their offer substantially in return. There is obvious advantage in obtaining as high a refund percentage as possible for the future. But a concession in this area would need careful handling. It would be essential to ensure that we extract a substantially better final deal on the strength of it, and that the improvement we obtain is worth more than the concession.

(v) Yes. One is bound to sympathise with Mr Pym's desire to put off the main negotiation until next year. But the arguments against this set out in paragraphs 20-22 of Mr Hancock's note are surely decisive.

(vi) Yes. We hope that the Chancellor will be available on the telephone if necessary.

(vii) Yes. We do not want to appear over-zealous. But neither must we appear to be trying to delay the discussions.

(viii) Yes - subject to two important provisos. First, Mr Pym's objective should be to achieve political agreement on the percentage of our net contribution refunded, rather than the technical details of the non-paper. Second, we could easily lose substantial sums of money as a result of the technical provisions of the Presidency/Commission non-paper - not just the exclusion of the levies and duties element in our net contribution but also the 'tolerance margin' (which, as now interpreted by the Commission, would be likely to cost us some 120 million ecus a year) and the definition of our refunds as gross or net of our own contributions towards them (amount at stake: about 20 per cent of the refunds total). The important point is the one in the last sentence of paragraph 18: we must be sure of actually receiving the rates of refund agreed at Ministerial level.

4. The answers suggested above imply a rather more flexible posture than that attributed to the Prime Minister in Mr Coles' note of 4 May to Mr Hancock - 'no concessions until the final negotiations'. But they seem compatible with the spirit of the Prime Minister's conception.

5. Mr Littler has seen and endorsed this brief as well.

AJCE

A J C EDWARDS

ANNEX A

REASONS WHY REFUND PERCENTAGE MUST EXCEED 66 PER CENT

(i) The 30 May 1980 arrangement applied in the first instance to two years only: we accepted it as a temporary arrangement in spirit of compromise - on the basis that the Community would find a more satisfactory longer term solution after discussion on the mandate.

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(iii) Since the root of our budget problem lies in the CAP and its financing, it would be a dangerous step to concede that one element of the CAP imbalance should be left out of account.

(iv) The amount of money involved is significant and subject to variation with world prices and harvests: the Commission's own budget figures imply that upwards of 75 million ecus would be at stake for 1982. To offset this, and the risks involved, we should need to negotiate a rate of refund on the rest of our net contribution perhaps some 4-5 per cent higher.

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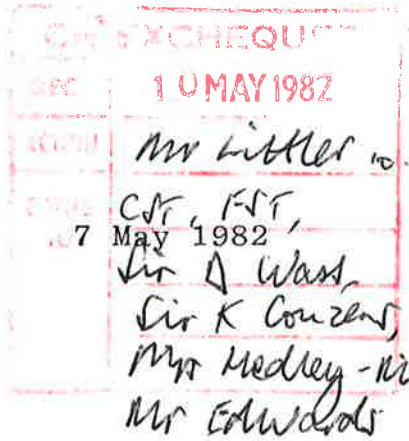
10 DOWNING STREET



From the Private Secretary

7 May 1982

30 May Mandate: Meeting of Foreign Ministers on 8/9 May

The Prime Minister discussed the handling of the meeting which the Foreign Secretary is to attend next weekend at a meeting last night. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Sir Robert Armstrong and Sir Michael Butler were present. The meeting considered the problems raised in Mr. Hancock's minute to me of 5 May.

The Foreign Secretary explained that the informal meeting of Foreign Ministers on 8/9 May would be very difficult. He thought it probable that, after protests and difficulties, the Community would agree to extend the sanctions. But positions on the budget problem were a long way apart and the farm price settlement loomed in the background. It was very awkward that these two problems had come together in this way. At the last meeting in Luxembourg he had been offered refunds of 800 million ecus a year, which was 50% or less of our unadjusted net contribution. Herr Genscher had just told him, at a meeting earlier in the afternoon, that the 800 million ecus exceeded his authority from his cabinet. The Foreign Secretary had argued that this was simply not fair on the United Kingdom. The Community had agreed to two-thirds in 1980 and was now offering less. Herr Genscher had replied that the effect of the 1980 agreement had been to leave Germany as the sole net contributor which presented a major political problem for the German Government. The 30 May agreement had in any case been too generous and if he had been present he would not have agreed to it. The over-payment which the United Kingdom had received would certainly need to be taken into account in the settlement for 1982 and future years.

This conversation with the Foreign Minister of a country which tended to be more sympathetic than others showed that the rest of the Community was digging in against us. The Foreign Secretary thought that he would be in very serious difficulties unless he could indicate that the United Kingdom would move its position downwards if the others moved up from 50%. In view of the Falklands crisis, he did not think that it would be a good idea for the 8/9 May meeting to end in failure.

/ The Chancellor

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The Chancellor of the Exchequer said that he agreed that the position was very difficult. But it would be a major setback for the Government, and for the Community cause in the United Kingdom, if we got no better deal than a 66% refund. The result of such a failure would be with the Government for a long time. If the other countries reneged on sanctions against Argentina, the political problem about Community membership would get acutely worse.

He could, however, accept the proposals for flexibility defined in paragraph 12 of Mr. Hancock's minute. He also saw advantage in offering the gesture on "over-payments" defined in paragraph 15. But he did not think this should be offered too early for fear that the other member states would ask for more. It would probably not be right to offer this concession on 8/9 May. He could not agree to the suggested concession on levies defined in paragraphs 13 and 14 of Mr. Hancock's minute. He thought that that would be a very dangerous concession and far too likely to lead to pressure to disregard customs duties as well.

The Minister of Agriculture said that his view had always been, and remained, that the only way to secure national objectives in the Community was to fight the other member states all the way and be prepared to make oneself very unpopular indeed. In normal circumstances he would have been quite ready to continue to oppose the farm price package through May and into June, despite the escalating pressures on the other governments from the farming interests. But the Government had to consider the effect of such a policy in present circumstances. The economic sanctions against Argentina presented a number of other governments with perfectly genuine domestic problems. It would be exceedingly difficult for these to be overcome if at the same time the United Kingdom was preventing the implementation of a price agreement which the Danes, the Irish and the Italians, for example, desparately needed and needed soon. If the 8/9 May meeting ended in complete failure, and at the next Agriculture Council the other nine reached agreement on a price package, as was probable, the atmosphere would turn very hostile indeed. The British Government would be attacked for ruthlessness and unwillingness to compromise in very direct and personal terms. Whether this was acceptable was a matter for the Prime Minister and the Foreign Secretary to judge; but he urged that, if the 8/9 May meeting failed, a very early date should be set for the resumption of the negotiations on the budget.

Sir Michael Butler suggested that the objective at the 8/9 May meeting should be to establish a negotiating bracket. Ideally we wanted to come out of the meeting with the others offering us 66% refunds and with the United Kingdom still standing on 85%. But this was probably too optimistic and it might prove that the best bracket we could establish was 60%-85% or 63%-82%. It was not unrealistic to expect further progress to be made towards agreement on duration, the review and the risk-sharing formula. If so, the Presidency would be able to say to the press afterwards that the gap between the positions had narrowed and a crisis in the Community would be averted.

/ In discussion

In discussion of the one-year solution option (paragraphs 19 2 of Mr. Hancock's minute refer) it was agreed that the Government would be in no better position to negotiate a satisfactory multi-year settlement in 1983 than it was in 1982.

Summing up the discussion, the Prime Minister said that the meeting agreed with the guidelines on flexibility in paragraph 12 of Mr. Hancock's minute. The gesture on over-payments in paragraph 15 could also be made at the right time, but not too early. The suggested concession on levies should not be made. The United Kingdom should not accept a one-year solution. If the 8/9 May meeting failed to reach agreement, our aim should be to secure an early date for resumed discussions.

I am sending copies of this letter to John Kerr (H.M. Treasury), Robert Lowson (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

10/5/82.

EXCHEQUER
10 MAY 1982

Mr Littler 10.5
CST, FST,
Sir D Wass,
Sir K Couzens,
Mrs Hedley-Miller,
Mr Edwards

SECRET AND PERSONAL

Qz.02561

MR COLES

cc: Private Secretaries to:
The Foreign and Commonwealth Secretary
The Chancellor of the Exchequer
Sir Robert Armstrong

30 MAY MANDATE: BILATERAL TALKS WITH THE FRENCH

The informal meeting of Foreign Ministers on 8/9 May got nowhere. The others stood firm on a flat rate refund of 800 million ecus a year for 3 years and Herr Genscher was as tough as any. Monsieur Thorn suggested a one year solution to get past the present crisis. The Foreign Secretary made it clear that this would only be conceivable if it were for an acceptable percentage of our unadjusted net contribution. Herr Genscher responded that the offer was either 800 million ecus for one year or 800 million ecus a year for 3 years. So nothing came of the proposal for a one-year solution. No arrangement has so far been made for a new discussion of the budget problem. The Belgians have hinted that they will propose that the Agriculture Council take a decision on the price package by a majority vote; but they may think better of this. Monsieur Cheysson said on Sunday that the French would increase their prices on 17 May and urged other countries to do the same. Unless this was an indirect reference to some form of national aids, it is difficult to see how the French could do such a thing without a Council decision. Sir Michael Butler is taking steps to ensure that the Commission are not tempted to co-operate in any illegality.

2. We cannot be at all sure how events will work out; but it is clear that the other member states, whose attitude is coloured by the Falklands crisis and growing agitation by their farmers, are doing everything they can to pile the pressure

/on

on us. Their campaign could easily get out of hand and have consequences which all governments would later regret. In particular, we know that communications within the present French administration are poor and it is open to question whether President Mitterrand has a balanced perspective of what is likely to happen if his administration proceeds on what appears to be its present collision course. Even though the Prime Minister's meeting with the French President on Monday 17 May is intended to focus on the Versailles summit, the question of farm prices now seems likely to come up in one form or other. It would therefore be worth taking steps to ensure that President Mitterrand is fully and correctly informed of our position. If he is not, he may allow Madame Cresson to take steps which would be impossible to reverse, or issue statements to the press which would establish a position from which he could not personally withdraw.

3. We may have an effective channel of communication with the French President through his personal advisor, Monsieur Jacques Attali. The Prime Minister will remember that Monsieur Attali made a secret approach to us in February to find out what the Prime Minister would regard as an acceptable solution to the budget problem. He stressed at the time that this approach was made in total confidence and that he would not wish anything that he said to get back to the rest of the French administration - hence the classification of this minute.

4. On instructions, Sir Robert Armstrong told Monsieur Attali that Ministers expected a refund of 90% of our unadjusted net contribution. This figure was reported to President Mitterrand, who reacted very badly. Since then there has been no further contact with the Elysee and Monsieur Cheysson has taken a very tough line in the formal negotiations. We understand that the figure that Monsieur Cheysson mentioned to the two Presidents in Luxembourg on 27 April was even lower than 800 million ecus.

5. However, at one point in his discussion with Sir Robert Armstrong on 24 March, Monsieur Attali did indicate that, at a pinch, the French government might contemplate a refund of as much as 1200 million ecus in 1982. Monsieur Thorn told the Foreign Secretary yesterday that the Commission's latest estimate of the United Kingdom's unadjusted net contribution was now around 1500 million ecus and the Germans have been making similar suggestions. The French must know of these developments and may now have a lower estimate of the cost to them of an 80% refund. (1200 million ecus is, of course, 80% of 1500 million ecus and well below what President Giscard d'Estaing conceded on 30 May.)

6. Monsieur Attali also indicated, on an entirely personal basis at the discussion on 24 March, that it might be possible for President Mitterrand to accept an increase of the 1200 million ecus refund in line with inflation. The Commission view is that the United Kingdom's unadjusted net contribution will very probably rise in line with inflation and not by more. It is therefore possible to argue that the position Monsieur Attali felt able to adopt in the talks on 24 March, even though on a personal basis, would be consistent with the negotiating instructions agreed by Ministers at the Prime Minister's meeting on 6 May. At the very least, it would surely be sensible to check that the French President has not received a false impression of our wish to seek a negotiated settlement which may have been obscured by the fact that they are stuck on a flat rate refund of 800 million ecus or less so that, as agreed by Ministers on 6 May, the process of bargaining cannot even begin. President Mitterrand may also not understand why it is politically impossible for the UK to agree to the farm price package before a budget settlement because the French administration appears to have convinced itself that we are behaving quite unreasonably and improperly in this matter. The UK position on this point also could be explained.

7. Sir Robert Armstrong will see Monsieur Attali this weekend at the Preparatory meeting for Versailles. However, previous experience shows how little time there is for extended bilateral discussion on such occasions. In any case, if we left it that late, the Elysee staff would not have time to write a brief for the President's visit on Monday, and something may happen in the meantime that would make the subsequent negotiations more difficult.

Recommendation

8. I have consulted Sir Robert Armstrong, Sir Michael Butler, Sir John Fretwell, Mr Littler of the Treasury and Mr Hannay of the FCO about the situation outlined above. We should like to put the following proposal for the Prime Minister's consideration. Sir Robert Armstrong should telephone Monsieur Attali on her instructions tomorrow morning to say that she has received a report of what happened at the informal meeting of Foreign Ministers at the weekend and that it seems to her that events are taking a course which neither she nor the French President intended. She believes that it should be possible to reach an agreement which takes proper account of essential French national interests concerning the Common Agricultural Policy and essential British national interests concerning the budget. It might therefore be desirable that, before her meeting with President Mitterrand on Monday, her personal representative and that of the President should meet to ensure that each side had a full and correct understanding of the other's position.

9. Sir Robert Armstrong might go on to explain that he would find it difficult to leave London before the weekend because of the Falklands crisis but would look forward to having a word with Monsieur Attali during the weekend meeting. He would then invite Monsieur Attali to receive a visit from Mr Hancock at the Elysee on Wednesday or Thursday to prepare the ground.

D.H.

D J S HANCOCK

10 May 1982

Paras 8, 9.

CONFIDENTIAL
FRAME ECONOMIC
FRAME AGRICULTURE
DESKBY 110830Z TO ALL
FM UKREP BRUSSELS 101904Z MAY 82
TO IMMEDIATE FCO
TELNO 1863 OF 10 MAY
INFO IMMEDIATE EC POSTS.

MANDATE AND CAP PRICES

1. AT THE COMMISSION MEETING THIS AFTERNOON THERE WAS NO DISCUSSION OF THE SITUATION WHICH WOULD ARISE IF THE UK VETOED THE PRICES PACKAGE. THE COMMISSION WILL DISCUSS AGAIN ON WEDNESDAY IN STRASBOURG. TUGENDHAT, WHO WAS GLOOMY YESTERDAY ABOUT FIGHTING OFF AN ATTEMPT TO GET THE COMMISSION TO APPLY THE NEW PRICES UNILATERALLY, WAS SLIGHTLY LESS PESSIMISTIC TODAY. BUT IT AGREED THAT THE COMMISSION SHOULD PUT FORWARD A PROPOSAL MAKING THE PRESIDENCY COMPROMISE ITS OWN. THOUGH THIS WAS NOT SAID IN COMMISSION, I HAVE NO DOUBT THAT THE PURPOSE WAS TO ENABLE THE PRESIDENCY TO PUSH FOR A MAJORITY VOTE. ALL THE INDICATIONS HOWEVER STILL POINT IN THE DIRECTION OF THE LUXEMBOURG COMPROMISE HOLDING WHEN WE INVOKE IT, DESPITE THE FACT THAT CRESSON IS ALLEGED TO HAVE TOLD DAVIGNON THAT SHE WILL VOTE TOMORROW.

2. AT THE COMMISSION MEETING DAVIGNON PROPOSED THAT THE COMMISSION SHOULD ALSO MAKE A PROPOSAL ON THE MANDATE. ACCORDING TO LEVER (QUOTING NOEL), THORN REPORTED THAT HE HAD RAISED THE POSSIBILITY OF A ONE YEAR SOLUTION AT VILLERS-LE-TEMPLE AND SPOKE ABOUT THE POSSIBILITY OF THE COMMISSION MAKING A PROPOSAL FOR 1982 UNDER THE 30 MAY CONCLUSIONS. THORN DID NOT PURSUE THIS IDEA TO ANY FORMAL CONCLUSION, BUT THERE SEEMS TO HAVE BEEN NO DISSENT, AND TUGENDHAT SEEMS TO EXPECT SUCH A PROPOSAL TO BE MADE.

3. AGAIN ACCORDING TO NOEL (TO LEVER) THE COMMISSION PROPOSAL WOULD BE FOR A 66 PERCENT REFUND SOLUTION BUT WITH A DEDUCTION FOR OVER-PAYMENT IN 1980/81, PROBABLY BRINGING IT BACK TO 800 MECUS. (INCIDENTIALLY THORN DID NOT TELL THE COMMISSION THAT HE HAD MENTIONED AT VILLERS-LE-TEMPLE AN ESTIMATE OF 1500 MECUS FOR THE UK NET CONTRIBUTION IN 1982 BUT ALLEGED THAT FIGURES IN THE RANGE OF 1500 TO 1700 MECUS HAD BEEN DISCUSSED.)

4. MEANWHILE TINDEMANS HAS CALLED A MEETING FOR THIS EVENING, WHICH NOTERDAEME IS ATTENDING, TO CONSIDER THE MESSAGE WHICH (AT LUNCH AFTER YOU HAD LEFT) HE TOLD HIS COLLEAGUES HE WOULD SEND TO ALL OF THEM. HE IS REPORTED TO WISH TO GET ACROSS THE POINT THAT HE AND THORN HAVE SHOT THEIR BOLT ON ACHIEVING A LONG-TERM SOLUTION TO THE 30 MAY MANDATE AND CAN DO NO MORE. HE ALSO SEEMS LIKELY TO INCLUDE THE SUGGESTION THAT A SOLUTION FOR 1982 ''ALONG THE LINES OF THE 1980-81 SOLUTION'', I.E. IN ACCORDANCE WITH PARAGRAPH 7 OF THE COUNCIL CONCLUSIONS OF 30 MAY 1980 SHOULD NOW BE SOUGHT.

5. AFTER COREPER ON THE FALKLANDS I WAS ABLE TO INSERT MYSELF INTO A DISCUSSION BETWEEN ERSBOLL AND NOTERDAEME ABOUT THE NATURE OF SUCH A PROPOSAL. AT FIRST I TOOK THE LINE THAT ANY SUCH PROPOSAL WOULD BE JUST AS DIFFICULT TO AGREE AS A 4 YEAR SOLUTION: THAT IT WOULD BE EXTREMELY UNDESIRABLE TO COME BACK TO THE MATTER IMMEDIATELY: AND THAT THERE WAS STILL A REASONABLE CHANCE OF GETTING A 4 YEAR SOLUTION WITH A REASONABLE PERIOD. BUT THEY BOTH TOOK THE VIEW THAT THIS WAS NOW IMPOSSIBLE AND THAT THE ONLY WAY TO AVERT THE COMMUNITY CRISIS WAS FOR THE COMMISSION TO ACT IN ACCORDANCE WITH PARAGRAPH 7 OF THE 30 MAY CONCLUSIONS.

6. ERSBOLL SHOWED ME A COPY OF HIS DRAFT WHICH PROVIDED FOR:
A. A REFUND OF 66 PERCENT OF THE COMMISSION'S ESTIMATE OF THE UK'S NET DEFICIT FOR 1982:
B. A RISK-SHARING FORMULA ON THE LINES OF THAT FOR 1981 (REPEAT 1981) IN PARAGRAPH 4 OF THE COUNCIL CONCLUSIONS OF 30 MAY:
C. THE OVER PAYMENT TO THE UK FOR 1980/81 TO BE TAKEN INTO ACCOUNT IN DECIDING THE REFUND TO THE UK IN 1983 (REPEAT 1983) AND SUBSEQUENT YEARS:
D. COREPER TO AGREE THIS IMMEDIATELY:
E. AGREEMENT TO BE REACHED ON CAP PRICES SIMULTANEOUSLY.

7. NOT YET KNOWING PARAS 2 AND 3 ABOVE I SAID THATIT WAS FOR THE COMMISSION TO DECIDE WHETHER TO MAKE A PROPOSAL UNDER PARAGRAPH 7 OF THE 30 MAY CONCLUSIONS. ERSBOLL SAID THAT, IF HE HAD BEEN ANY GOOD, THORN WOULD HAVE DONE IT YESTERDAY. NOTERDAEME SAID THAT TINDEMANS WOULD CLEARLY WORK WITH THORN. SINCE I JUDGED THAT SOME PROPOSAL OF THAT KIND OUTLINED BY ERSBOLL WAS GOING TO BE PUT TO TINDEMANS AND THORN WHATEVER I SAID, I THOUGHT IT BEST TO TRY TO IMPROVE THE DRAFT.

8. I ATTACKED THE PROPOSAL THAT THE 1982 SETTLEMENT SHOULD BE BASED ON A COMMISSION ESTIMATE. I POINTED OUT THAT THORN HAD IRRESPONSIBLY GIVEN AN ESTIMATE OF 1500 MECUS AT VILLERS-LE-TEMPLE WHICH WAS NOT, AS FAR AS I KNEW, BASED ON ANY NEW SCIENTIFIC ESTIMATE, SINCE NOEL HAD GIVEN AN ESTIMATE OF OVER 1,600 MECUS AT THE EXPERTS MEETING IN LUXEMBOURG ON 25 APRIL: AND THAT THE 1980 AGREEMENT HAD BEEN BASED ON AN AGREED ESTIMATE. ERSBOLL AND NOTERDAEME AMENDED THE DRAFT TO READ ''AN AGREED ESTIMATE''.

9. I ATTACKED EVEN MORE VIGOROUSLY THE PROPOSAL THAT THE 1980/81 OVER-PAYMENTS SHOULD BE TAKEN INTO ACCOUNT FOR 1983 AND SUBSEQUENT YEARS. THEY SAID THAT YOU HAD INDICATED WILLINGNESS TO DO SOMETHING ABOUT THE OVER-PAYMENT AND ARGUED THAT THE PHRASE WAS SUFFICIENTLY VAGUE TO BE ACCEPTABLE TO US. I SAID THAT YOU HAD INDICATED THAT YOU MIGHT BE PREPARED TO CONSIDER MAKING A UNILATERAL GESTURE OF A RELATIVELY SMALL KIND IN REGARD TO 1981. BUT THAT WAS IN THE CONTEXT OF A SATISFACTORY FOUR YEAR SETTLEMENT AND THERE WAS NO QUESTION OF US MAKING SUCH A GESTURE FOR A ONE

YEAR SETTLEMENT. ERSBOLL'S TEXT WOULD ENSURE REJECTION IN LONDON. THEY TOOK IT OUT ; BUT THEN ARGUED THAT THERE WOULD HAVE TO BE A RISK-SHARING FORMULA DOWNWARDS IF THERE WERE TO BE AN AGREED , AND THEREFORE NOT A VERY LOW, ESTIMATE. I SAID THAT I DID NOT EXCLUDE A MIRROR-IMAGE RISK-SHARING FORMULA DOWNWARDS. THEY INCLUDED THIS IDEA.

10. WE THEN HAD SOME FURTHER ARGUMENT WHETHER IT WOULD NOT BE BETTER FOR THE PRESIDENCY TO MAKE A FOUR YEAR PROPOSAL, BUT TO NO AVAIL. NOTERDAEME WENT OFF TO HIS MEETING WITH TINDEMANS WITH ERSBOLL'S DRAFT IN HIS POCKET.

FCO ADVANCE TO:-
FCO - HANNAY DE FONBLANQUE FRY
CAB - HANCOCK ELLIOTT WENTWORTH
TSY - LITTLER EDWARDS

BUTLER

[ADVANCED AS REQUESTED]

FRAME ECONOMIC
FRAME AGRICULTURE
ECD(I)

CONFIDENTIAL

FROM: J.G.LITTLER
DATE: 11 MAY, 1982

MR. JENKINS

30 MAY MANDATE: BILATERAL TALKS WITH THE FRENCH

Your office should have received late last night a copy of a minute from Mr. Hancock to Mr. Coles in No. 10, marked Secret and Personal, suggesting a bilateral approach to the French Elysee to try to get the budget negotiations back on to a better track.

2. I am minuting simply to say that I have agreed the terms of this minute, I am content that it fits comfortably within the decisions reached and the authorities given at the meeting with the Prime Minister which the Chancellor attended last week, and I am sure you need not trouble the Chancellor for his views while he is away at Helsinki.

3. I will concoct a short submission for his return, touching on this and other developments.

E.B. Hellier
for (J. G. LITTLER)

cc Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Mrs. Hedley-Miller
Mr. A.J.C. Edwards

SECRET AND PERSONAL

VK/OR

PWP

10 DOWNING STREET

From the Private Secretary

MR. HANCOCK

30 May Mandate: Bilateral talks with the French

Thank you for your minute of 10 May.

The Prime Minister thinks it is an excellent idea that Sir Robert Armstrong should telephone Monsieur Attali in the sense of your paragraph 8 and that you should visit the Elysee on Wednesday or Thursday to prepare the ground for Sir Robert Armstrong's discussion with Attali at the weekend.

I am copying this minute to Brian Fall (Foreign and Commonwealth Office), John Herr (H.M. Treasury) and David Wright (Cabinet Office).

11 May 1982

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

cc- Mr Hancock
Mr Elliott

CONFIDENTIAL

The Rt Hon Francis Pym MC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

12 May 1982

THE MANDATE

As you will have seen from the telegrams, this week's Agriculture Council saw a number of attempts to force through the 1982 prices package against our opposition. All the other nine are now agreed on a revised package. At one time it looked as if the Presidency might force matters to a vote, or draw a conclusion as if a vote had been taken; but with support from Greece, Denmark and the Netherlands - and with the French evidently deciding against abandoning the Luxembourg accords, at any rate at that stage - I was able to fight that off.

We then saw a remarkably irresponsible attempt by Thorn, who came along with Davignon to display the full commitment of the Commission, to circumvent the Luxembourg accords by a procedural device: he argued that the conditions for a decision under the Treaty now existed, with nine member countries in favour of the package, and that the Commission should be authorised to prepare legal texts in the linguists/jurists group for adoption as "A" points, ie without discussion, at a future Council. The French, who by then had consulted Cheysson, seemed prepared to back this device, but again the Greeks and Danes joined us in opposing it, the Dutch were also unhappy about it and all other countries expressed their willingness to support the device. The outcome was that the Council will meet again on Monday 17 May, and the marketing years for the relevant commodities have been extended to 19 May. There are intense pressures for a decision to be taken on 17 May, and for progress to be made in the budget negotiation before then.

/If the budget ...

If the budget question is still unresolved on 17 May we shall of course continue to block the agricultural settlement. It is difficult to be sure how the others will then react. It is possible, however, that the Presidency will then force matters to a vote. If they do, we can I think rely on Greece and Denmark joining us in refusing to take part in the voting. But our combined votes fall short by one vote of the number needed to prevent a decision from being taken by qualified majority. The attitude of the French will therefore be crucial. The Luxembourg accords, extracted by De Gaulle at the end of a prolonged Community crisis, have always been regarded as a cornerstone of French policy on the Community and even now it is hard to believe that the French will destroy them for the temporary advantage of getting the prices package adopted. But some of our partners think the present French Government may be prepared to do so. Madame Cresson made conflicting statements during the Council. She told the Press that she would recognise our right to invoke the Luxembourg accords; but she told Davignon that she was prepared to vote.

An alternative possibility is one which some of Madame Cresson's remarks to the Press implied she might be prepared to see go through: this is that a vacuum would be created by refusal to extend the marketing years, and that the Commission should assume its authority to fill the gap: not, as would be legitimate, by simply extending present arrangements and prices, but by introducing on its own authority the new prices and arrangements agreed by the Nine.

This would in practice mean the end of the Luxembourg accords, but by a different and less obvious means. Its legality is very questionable, but it would of course hold good for the considerable time needed for the European Court to pronounce on it. I find it hard to judge whether the French would really go back on the Luxembourg accords and on their habitual reluctance to concede power to the Commission by acquiescing in this procedure. But again I do not think we can rule it out.

You will wish to consider what further steps we might take to minimise the risk of a vote, or of unilateral action by the Commission. But I think we also have to consider urgently what our attitude and actions should be if either of these should take place. We should clearly be in a state of total crisis in our relations with the Community and it would in my view be disastrous if we were to take no counter action; indeed I think we should

/seek in those ...

seek in those circumstances to heighten the crisis and so bring it to a head. We could not legally prevent the agricultural package from taking effect in the UK, nor do I think it would be right to try to do so. But we could and in my view should in those circumstances withhold immediately all payments to the Community; and we should need to be ready to back this, if necessary, by subsequent amendment of the European Communities Act. We should also have to add to our aim of securing an acceptable budget agreement (and the further points we still have to secure in the agricultural package) the further aim of reinstating the Luxembourg accords: we are too often in a minority of one for it to be tolerable to acquiesce in the abolition of the power of veto.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

PETER WALKER

13/5/82.

CABINET OFFICE

Mr Kerr

With the compliments of

Annex C of Mr Hancock's submission to Mr Coles of 13 May.

"30 May Mandate: UK Policy During the Next Phase"

70 Whitehall, London SW1A 2AS
Telephone 01 233

ANNEX

I

(Information)

COUNCIL

Council conclusions of 30 May 1980 on the United Kingdom contribution to the financing of the Community budget

1. The net United Kingdom contribution for 1980 will be calculated on the basis of the present Commission estimate (1 784 MEUA). 1 175 MEUA will be deducted from this figure. This leaves a United Kingdom contribution of 609 MEUA for 1980.

2. The net United Kingdom contribution for 1981 will be calculated on the basis of the Commission estimate of 2 140 MEUA. The United Kingdom's 1980 net contribution will be increased by a percentage equal to the difference between 1 784 and 2 140 MEUA, namely 19·9 % or 121 MEUA. The net United Kingdom contribution for 1981 therefore becomes 730 MEUA.

3. The United Kingdom contribution, based on the above calculations, is reduced for 1980 and 1981 by 2 585 MEUA (1 175 plus 1 410).

4. If the United Kingdom's actual contributions for 1980 and 1981 are higher than 1 784 and 2 140 MEUA respectively the difference will be split: for the first year 25 % will be borne by the United Kingdom and 75 % by the other eight Member States. For the second year: increase from 730 to 750 MEUA to be borne in full by the United Kingdom; from 750 to 850 MEUA, 50 % to be borne by the United Kingdom and 50 % by the other eight Member States; above 850 MEUA, 25 % to be borne by the United Kingdom and 75 % by the others.

5. Payments over the period 1980 to 1982 should be made by means of the adapted financial mechanism and the supplementary measures proposed by the Commission. The financial mechanism will continue to function automatically until the end of 1982.

6. The credits are entered in the budget of the following year, following the precedent of the financial mechanism.

At the request of the United Kingdom the Council can decide each year on a proposal from the Commission to make advances to permit the accelerated implementation of the supplementary measures.

7. For 1982, the Community is pledged to resolve the problem by means of structural changes (Commission mandate, to be fulfilled by the end of June 1981: the examination will concern the development of Community policies, without calling into question the common financial responsibility for these policies which are financed from the Community's own resources, or the basic principles of the common agricultural policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them). If this is not achieved, the Commission will make proposals along the lines of the 1980 to 1981 solution and the Council will act accordingly.

8. The Council reaffirms the conclusions adopted by it (in its composition of Ministers of Economic Affairs and Finance) on 11 February 1980 [see Annex to 5081/80 PV/CONS 5 ECOFIN 9], which included reference to the 1 % VAT own resources ceiling.

9. It is important for the future well-being of the Community that day to day decisions and policy

making should function effectively, particularly during the period when the review provided for in paragraph 7 is under way. With this objective in mind all Member States undertake to do their best to ensure that Community decisions are taken expeditiously and in particular that decisions on agricultural price fixing are taken in time for the next marketing year.

Council declaration of 30 May 1980 on the common fisheries policy

1. The Council agrees that the completion of the common fisheries policy is a concomitant part of the solution of the problems with which the Community is confronted at present. To this end the Council undertakes to adopt, in parallel with the application of the decisions which will be taken in other areas, the decisions necessary to ensure that a common overall fisheries policy is put into effect at the latest on 1 January 1981.

2. In compliance with the Treaties and in conformity with the Council Resolution of 3 November 1976 (the 'Hague agreement'), this policy should be based on the following guidelines:

(a) rational and non-discriminatory Community measures for the management of resources and conservation and reconstitution of stocks so as to ensure their exploitation on a lasting basis in appropriate social and economic conditions;

(b) fair distribution of catches having regard, most particularly, to traditional fishing activities, to the special needs of regions where the local populations are particularly dependent upon fishing and the industries allied thereto [1], and to the loss of catch potential in third country waters;

(c) effective controls on the conditions applying to fisheries;

(d) adoption of structural measures which include a financial contribution by the Community;

(e) establishment of securely-based fisheries relations with third countries and implementation of agreements already negotiated. In addition, endeavours should be made to conclude further agreements on fishing possibilities, in which the Community — subject to the maintenance of stability on the Community market — could also offer trade concessions.

3. Furthermore, Article 103 of the Act of Accession shall be applied in conformity with the objectives and provisions of the Treaty establishing the European Economic Community, with the Act of Accession, *inter alia* Articles 100 to 102, and with the Council Resolution of 3 November 1976, and in particular Annex VII thereto.

4. The Council agrees to resume its examination of the Commission proposals for Regulations under (a) (technical conservation measures) and (c) (control) at its meeting on 16 June 1980, and also on this occasion to begin examination of other proposals, including a proposal on quotas for 1980 which the Commission undertakes to submit in good time.

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[1] See paragraphs 3 and 4 of Annex VII to the Council Resolution of 3 November 1976.

13/5/82.

EXCHEQUER
13 MAY 1982
ACTION Mr Edwards 13/5
COPIES TO CST, FST, EST, MSTC, MSTR, Sir A Wass, Sir K Couzens, Mr Littler, Mr Hedley-Miller, Mr Ridley

SECRET

Qz.02565

C

Para 8 (ii) must be regarded JN

MR COLES

cc: Private Secretaries to:

The Foreign and Commonwealth Secretary
The Chancellor of the Exchequer
Minister of Agriculture, Fisheries and Food
Sir Robert Armstrong

30 MAY MANDATE: BILATERAL DISCUSSIONS WITH ELYSEE

With the Prime Minister's agreement I visited Paris on 12 May to ensure that the special advisor to President Mitterrand, Monsieur Jacques Attali, fully understood the Government's position on the Mandate and the price fixing; to see whether there existed any hope of agreement with the French within the negotiating authority agreed by Ministers on 6 May; and to pave the way for a talk between Monsieur Attali and Sir Robert Armstrong at the preparatory meeting for Versailles this weekend. Monsieur Attali was very pressed for time but I had an hour with his aide, Monsieur Morel, and 20 minutes with Monsieur Attali. Monsieur Morel summarized what I had said accurately to Monsieur Attali in my presence. Monsieur Attali noted the problem; remarked that he could tell me in the name of the President that it was not his intention to create political difficulties for the Prime Minister; he would seek instructions from the President during their visit to Hamburg on Friday 14 May and would arrange a meeting after dinner on Saturday 15 May with the representatives of the Community at the Versailles preparatory meeting, namely Sir Robert Armstrong, Herr Schulmann of the German Ministry of Finance, Signor Berlinguer of the Italian Prime Minister's office, Monsieur van Ypersele, the Belgian Prime Minister's Chef de Cabinet, and Monsieur Durieux, Monsieur Thorn's Chef de Cabinet.

/2.

SECRET

Nature of the link

2. Monsieur Morel said, on standard lines, that in the French President's view the British budget problem and the problem of farm prices were entirely separate. The former, in the way the United Kingdom had posed the problem, raised the question of the whole character of the Community. The latter was a routine question of the management of the Community as it existed. I explained that the British Government considered that the connection between the two subjects was natural and inseparable: first, because of the agreement reached by the Heads of State and Government at Lancaster House last year; second, because of the cost of the proposed package to the Community budget and to the United Kingdom; and third, because of the political impossibility of justifying to the British Parliament and people agreement to the price package without agreement on the budget. I urged Monsieur Attali and Monsieur Morel to explain the Government's view on this point clearly to President Mitterrand. They said that they would.

One year solution

3. I was asked the Government's view of the possibility of a one year solution. I explained that the Prime Minister considered that the problem would be no easier to solve in a few months time than it was at present and that the closer the negotiations got to the next United Kingdom election, the greater the risk of provoking a debate about the UK's position in the Community which would be damaging to all concerned. I added that the Government had received a new communication from the two Presidents which appeared to raise the possibility of a third year under the terms of the 30 May Agreement. This letter had not yet been considered by Ministers but the objections to a one year solution that I had mentioned seemed to me to apply also to this proposal.

Luxembourg compromise

4. I made several attempts to pin Monsieur Morel down on the French attitude to the Luxembourg compromise. He never gave me a straight answer. He said that the French government had

/been

been very keen on "relance", but was now convinced that the time for "relance" was not right and accordingly gave absolute priority to ensuring that the Community functioned properly in its present form. The functioning of the CAP was of fundamental importance to France. (The implication of these remarks seemed to me to be that, if the abandonment of the Luxembourg compromise was the price that the French government had to pay for preserving the CAP, then they might pay it. But this was not in any way made explicit. Our Embassy in Paris believe that a considerable debate has been going on within the French government about the Luxembourg compromise.)

UK budget problem

5. Monsieur Attali at first took the line that there was no urgency about solving the UK budget problem. The French President understood the difficulty that the United Kingdom faced. But he did not want the decision taken in a hurry. I then explained the position taken by Mr Walker at the Agriculture Council on 10 May. Monsieur Attali then asked me whether the United Kingdom would be ready to vote at the next Agriculture Council on 17 May. I replied that, if nothing changed in the meantime, Mr Walker would be unable to change the position he had taken up on 10 May. Monsieur Attali looked rather surprised and then said that it was just not conceivable that the price package should be agreed by 9 member states and not implemented. He referred me to the statement issued after the French Council of Ministers on 12 May.

6. I remarked that the Community seemed to be heading for a major crisis and enquired whether it was really necessary. I reminded him that at his private and confidential discussion with Sir Robert Armstrong on 24 March he had said that in his personal opinion, and in total confidence, a refund of as much as 1200 million ecus might be conceivable for 1982. On that occasion Sir Robert Armstrong had said that this was a good deal less than 90% of the Commission's latest estimate of our

/unadjusted

unadjusted net contribution for 1982. Since then the Commission's estimate of our unadjusted net contribution had fallen and the United Kingdom was ready to show flexibility on the percentage. If the French government's position as earlier intimated by Monsieur Attali still had validity, then it seemed to me that agreement was not so far away as to justify the crisis into which the Community was apparently stumbling.

7. Monsieur Attali pointed out that the figure of 1200 million ecus for our refund related to a higher estimate of the unadjusted net contribution. But he would seek President Mitterrand's instructions during the course of a visit to Hamburg on Friday 14 May and arrange a meeting for Saturday as described in paragraph 1 above. He had discussed the matter with the President that morning and could assure me that the President had no intention to create political difficulties for the Prime Minister. There was no time for further discussion.

Comment

8. The impression I formed from these meetings and subsequent discussions with our Embassy in Paris is that:-

(i) President Mitterrand does not want a crisis.

(ii) He has failed to understand so far the full significance of what happened in the Agriculture Council on 10 May.

(iii) He has more flexibility on the size of our refund than Monsieur Cheysson has needed to reveal in the discussions between Foreign Ministers - the tough line taken by the Germans recently has made it quite unnecessary for the French to negotiate.

(iv) President Mitterrand would not agree to a solution that looked like a change in the system of financing the Community; he would only contemplate something that looked like a temporary and ad hoc arrangement to help the UK.

/What

What is not clear is whether President Mitterrand would be prepared to accept a system of compensation including a risk-sharing formula.

D.H.

D J S HANCOCK

13 May 1982

13/5/82.

THIRD YEAR OF REFUNDS UNDER THE 30 MAY 1980 AGREEMENT

Note by Officials

1. This note reports the most recent initiative of Monsieurs Thorn and Tindemans on the budget, assesses an alternative form of third year refund which might emerge in the next round of negotiations, and considers how the United Kingdom might respond to such a proposal.

The Thorn/Tindemans message

2. On 11 May the Foreign and Commonwealth Secretary received a message from the President of the Council and the President of the Commission. A translation is at Annex A and a draft reply at Annex B. The message asked the United Kingdom to accept a one year solution for 1982 alone, purportedly based on the 30 May agreement and consisting of a refund of 800 mecu. It sought a response in the next few days with the object of reaching a decision at the 24 May Foreign Affairs Council (though there is also talk in Brussels of a special meeting of Foreign Ministers to deal with the budget on Sunday 16 May).

3. Paragraph 7 of the 30 May Agreement (Annex C) provides that if the budget problem is not resolved for 1982 by structural change "the Commission will make proposals along the lines of the 1980/81 solution and the Council will act accordingly". It would therefore be difficult for the UK to refuse to consider a formal proposal by the Commission for a third year of refunds under the Agreement, though we could of course argue that the search for a structural solution should not be abandoned so early.

4. On figures this proposal goes no further than what was on offer at Villers-le-Temple, and is clearly unacceptable. Moreover it does not comply with the detailed provisions for calculating the refunds in the 30 May agreement. Its ulterior purpose may be to formalize the British rejection of the 800 mecu offer for 1982 in order to improve the

/chances

chances of a vote in the 17 May Agriculture Council. The proposal nevertheless contains one element of considerable value to the United Kingdom, namely the idea of a commitment to agree a longer term solution before the end of 1982, which we should seek to hang on to.

5. Ministers may therefore agree that the United Kingdom should not negotiate on the basis of the Thorn/Tindemans letter, but that in replying we should not rule out the possibility of a one-year proposal properly founded on the 30 May Agreement. Annex B is drafted with these considerations in mind. The remainder of this note examines the advantages and disadvantages of agreeing to negotiate a one-year solution and what our aims should be if Ministers decided to do so.

A third Year of Refunds

6. The present state of the budget negotiation is much less promising than seemed likely a month or two ago and an acceptable long term solution might now take several months of crisis to achieve. In these circumstances the suggestion of the two Presidents might be worth considering. A third year of refunds based strictly on the 30 May Agreement could have some advantages:-

(i) Because of its legal basis in the 30 May Agreement it would have to relate our compensation to our net budget contribution as a whole - a key concept which the others have been trying to suppress in the negotiations on a longer term solution.

(ii) It would be difficult for the others to argue that the basic rate of compensation should be anything less than 66% of our unadjusted net contribution - an improvement on the 800 mecu lump sum previously on offer.

(iii) It would bring in the concept of risk sharing, and get away from the lump sum approach.

/(iv)

(iv) It would secure recognition of a marginal compensation rate of 75% if the forecast of our unadjusted net contribution was too low (see paragraph 4 of Annex C).

7. There would also be clear disadvantages:-

(i) There would be no way of manipulating the 30 May Agreement to give much more than 66% compensation for our unadjusted net contribution in 1982, and the chances of getting more than 66% over the longer term would be reduced.

(ii) The leverage of the 1982 price fixing would have been used up. We would have made concessions on small milk producers and Mediterranean agriculture without getting a medium term budget solution in return.

(iii) There would be no leverage available until the 1983 price fixing and the negotiations could simply drag on. We could face, and would have to resist, pressure to agree now not to use the price fixing lever.

(iv) The whole argument about our budget contribution would be prolonged and brought closer to the next UK general election.

Possible Financial Consequences of a Third Year Refund

8. If we can get the method of the 30 May Agreement strictly applied, the first step would be for the Commission to produce an estimate of the United Kingdom's unadjusted net contribution in respect of 1982. Current estimates by the Treasury and the Commission give a range extending from 1600 to 2150 mecu. The table below uses three hypothetical figures from the lower end of this range, which the Commission favour, to show the results of this method.

/Table 1

Table 1

1982 Estimate of Unadjusted Net Contribution to be used in operating agreement	Percentage Difference from 1980 forcast	1982 Refund	Refund as Percentage of Unadjusted Net Contribution	UK Adjusted Net Contribution
mecu		mecu		mecu
1500	-15.9	988	65.9	512
1600	-10.3	1054	65.9	546
1800	+ 0.9	1186	65.9	614

On this basis, the adjusted net contribution would be well below the 730 mecu to which we agreed for 1981.

9. The 30 May Agreement contains different provisions for 1980 and 1981 for risk sharing if the Commission estimates of our unadjusted net contributions were exceeded. It will be necessary to decide which of these should be applied to 1982 and there is no language in the Agreement to guide the choice. Although others will argue for a continuation of the 1981 arrangement, for which there would be some justification, we would prefer the 1980 method, which gives us rather better protection against a rise in our net contribution. For 1980 the provision was that the UK was to receive a refund of 75% of any excess over the estimate. For 1981 there was to be no refund for the first 20 mecu above the estimate, a 50% refund for the next 100 mecu and a 75% refund beyond that. The practical effect is that, if (as we think likely) our actual net contribution exceeds the Commission estimate, we would receive up to 40 mecu less under the 1981 arrangement than under the 1980 arrangement. Table 2 shows how, in three specific cases, the 1980 arrangement applied to upward risk sharing would provide a refund up to 40 mecu higher than the 1981 arrangement.

/Table 2

Table 2

1982 Estimated Unadjusted Net Contribution	Possible 1982 Out-turn	Refund after 1980 risk-sharing (%age of out-turn)	Refund after 1981 risk-sharing (%age of out-turn)
mecu	mecu	mecu	mecu
1500	2000	1363 (68.1)	1323 (66.1)
1600	2000	1354 (67.7)	1314 (65.7)
1800	2000	1336 (66.8)	1296 (64.8)

10. These tables suggest that provided we get effective risk sharing the choice of the estimated 1982 figures is not of crucial importance in determining the eventual UK refund.

Alleged over-payment for 1980 and 1981

11. Our partners will clearly be seeking to take account of the alleged over-payment for 1980 and 1981 and that is the basis for the 800 mecu offer. There is nothing in the 30 May Agreement on which this attitude can be based and we should continue to argue against it, making it clear that the third year should be strictly on the lines laid down in the Agreement. But in return for our partners' accepting not to press their claim over the over-payment, we could consider conceding downward risk-sharing so that the problem could not recur. We should resist pressures for a more specific gesture of the kind mentioned by the Foreign Secretary at the last meeting of Foreign Ministers on the grounds that we were only prepared to contemplate that in the context of a longer term agreement.

C/E agrees

C/K agrees v. strongly

Approach to risk sharing

12. Against this background our approach to risk sharing might be:-

(i) To be prepared to agree to downward as well as upward risk sharing, but to present it as a concession and extract the maximum negotiating mileage from it.

/(ii)

(ii) To insist that the marginal compensation rate should be 75% as in the 30 May Agreement.

(iii) To argue for the 1980 arrangement to be applied on the grounds that it is simpler, less arbitrary, and would be in the interests of the other member states if the Commission's estimate of our unadjusted net contribution proved to be too high.

(iv) But, if necessary, to be ready to accept the 1981 risk sharing arrangements as a fallback.

Subsequent negotiations on arrangements after 1982

13. The Thorn/Tindemans proposal contains a satisfactory formula setting a deadline for the conclusion of longer term arrangements, but we should need to get clear agreement on this by our partners. 31 December 1982 would be an ideal deadline because it would help us to resist any pressure to agree that we would not hold up the 1983 price fixing. We could argue that such an undertaking was unnecessary because the Mandate decisions should be taken well before the price-fixing decisions became due.

Recommendations

14. Officials are agreed on the following recommendations:-

(i) at the various relevant meetings in the next few days UK representatives should take the line that the British budget problem will have to be solved sooner or later and it will not necessarily be any easier to solve later than it is now. We should therefore continue to urge the other member states and the Commission to negotiate for a solution lasting 4 or 5 years based on objective criteria.

/(ii)

(ii) If it becomes clear that a multi-year solution could only be obtained on terms unacceptable to the Government (and given the risk that the farm price package may somehow be forced through despite our veto) then we should be prepared to negotiate a satisfactory application of the 30 May Agreement to the third year as an interim measure before negotiations on the longer-term solution are resumed.

(iii) To reduce the risk of the type of reaction by the rest of the Community described by the Minister of Agriculture in Cabinet this morning, the Foreign Secretary should send a firm but conciliatory reply to Messieurs Thorn and Tindemans. The recommended draft is attached at Annex B.

(iv) In any negotiations for the application of the 30 May Agreement to 1982, the UK objectives should be as follows:-

(a) The refund for 1982 to be calculated from the Commission estimate of our unadjusted net contribution for that year. (The point of this is that the lowest conceivable Commission estimate is 1500 mecu. Two-thirds of this is well above the 800 mecu figure on which the Germans are now dug in.)

(b) A risk sharing formula in the form applied for the year 1980; but we should accept that it should extend downwards as well as upwards.

(c) In the last resort if (b) above were unobtainable, we should be prepared to accept the 1981 formula, again extended downwards as well as upwards.

/(d)

(d) We should insist on a formal endorsement by all member states of the deadline suggested in the two Presidents' letter for securing a longer-term agreement - namely before the end of 1982.

(e) We should accept no condition that would in any way prejudice UK views on the nature of the longer-term solution. We should not accept any new constraint on our freedom of action in future farm price negotiations.

(v) Our aim should be to fight off the over-payment issue and to get the other member states to agree to a one year solution on the conditions listed above without any reference to it. We may not succeed in these aims. Ministers may therefore have to re-consider this point if it seems critical to securing an otherwise acceptable deal.

Cabinet Office

13 May 1982

ANNEX A

STS 177/82

TRANSLATION OF LETTER TO THE FOREIGN AND COMMONWEALTH SECRETARY FROM MM THORN AND TINDEMANS

Dear Colleague

In the course of our work at Villers-le-Temple on matters regarding the budget and in the face of the difficulty in reaching an overall agreement, we proposed the consideration of a more limited formula which concerns 1982 alone. Moreover, express provision for such a possibility was made in the Agreement of 30 May 1980.

We should like to remind you of that proposal and to clarify it. Indeed, we consider it of the utmost importance during the difficult period which the Community is experiencing, that there should be no slackening of our efforts to find a solution to the problems connected with the British contribution, particularly since all our colleagues have stated, unequivocally, their desire to reach a solution acceptable to all.

The proposal we made at Villers-le-Temple, which we now confirm, is that compensation for the United Kingdom for 1982 should be decided immediately and that in the light of our discussions on the measures adopted for 1980 and 1981, the sum should be fixed at 800 million ECUs.

Furthermore, we undertake to continue with our efforts to reach before the end of 1982 a longer-term settlement which will take into account all available factors.

This formula/

This formula provides the United Kingdom with a clear undertaking for the present financial year without prejudicing the decisions to be taken regarding subsequent years. Although it was not discussed in detail at Villers-le-Temple, we have the impression that it was received favourably by our colleagues.

We would like you to give fresh consideration to this proposal taking into account everything we discussed together concerning both the implementation of the agreement of 30 May and our willingness to conclude an agreement covering several years. We very much hope that, after due consideration, you will be able to give your consent.

Public opinion would find it inconceivable for the Community to remain immersed in a serious internal crisis at a time when it is more than ever necessary for it to continue to display the unity of which it has given such splendid proof over the past few weeks. Therefore, we request you to give us your reply at the earliest possible opportunity in the next few days so that we can get a decision on 24 May from the Council which could equally decide on the timetable for finalising the longer-term settlement.

Yours etc

G THORN L TINDEMANS

P.S. It goes without saying that we are at your disposal should you wish to contact us.

Draft reply to Messrs Thorn and Tindemans

Thank you for the message you and Gaston Thorn sent me on 11 May about the next stage of the Mandate negotiations. I am very conscious of the amount of time and effort you are both devoting to this intractable subject and grateful to you for it. I entirely agree with you that we must not relax our efforts to settle the British budget and related problems.

I have considered carefully the arguments you advance in favour of a solution for 1982 along the lines of 1980/81, followed by a pause in these negotiations and their resumption later in the year. I certainly agree that the way things are going at the moment is not satisfactory. I was particularly disappointed, after the failure to negotiate on the basis of your non-paper in Luxembourg, at the way the discussion went at Villers-le-Temple. As I told you and my other Community colleagues I went to that meeting ready to negotiate and I remain ready to negotiate. But I was faced there with a take-it-or-leave-it position from colleagues which in no respect differed from what they had said when we last met in the Council on 27 April. No compromise proposal came forward from the Presidency or the Commission. No Community negotiation can be successfully brought to a conclusion on that basis; and this negotiation is no exception.

But would a pause be likely to help? Is there any reason to believe that the negotiations would be easier to bring to a successful conclusion later in the year? Is it in the interests of any of us

individually/...

individually, and of the Community as a whole, that this divisive negotiation should be yet further prolonged? These are hard questions to answer in the affirmative. If there is to be such a pause, there would certainly need to be a firm and precise commitment by all of us of the sort you suggest to concluding the negotiations at an early date, and certainly not later than the end of the year. We had a commitment to decide on the 30 May Mandate at the end of last year. The considered view of my government is however that the right course is to continue the negotiations now for a longer-term solution and to bring them to an early conclusion.

You asked me to consider the possibility of coming to an early agreement on a third year of refunds in respect of 1982 as is provided for in the final sentence of paragraph 7 of the decision of 30 May 1980. For the reasons given above, I am reluctant to come to the conclusion that we have reached a situation where there is no possibility of reaching a broader structural solution in the near future. Moreover, I am not yet convinced that it would be easier to negotiate a solution along the lines of 1980/81 than to settle the problem for the next few years. But I could naturally not refuse to consider a formal proposal from the Commission based on the precise and detailed provisions of the 1980 decision, no more and no less. No such proposal has been made and the lump sum approach you mention cannot be reconciled with the provisions in the 1980 agreement.

I understand that there was a strong feeling in the Agriculture Council yesterday, that there should be another attempt to reach agreement

on the/...

on the budget problem before next Monday. I can assure you that I attach the same urgency to this negotiation as you do, and I am at your disposal whenever you wish to call a meeting of the Council.

13/5/82

MR COLES

cc: Private Secretaries to:

The Foreign and Commonwealth Secretary
The Chancellor of the Exchequer
The Minister of Agriculture, Fisheries and Food
Sir Robert Armstrong

30 MAY MANDATE: UK POLICY DURING THE NEXT PHASE

The following papers are attached:-

(i) An agreed note by Treasury, FCO, MAFF and Cabinet Office officials on the proposal by Monsieur Tindemans and Monsieur Thorn that the 30 May Agreement now be applied to a third year in order to avoid the current crisis in the Community.

(ii) The Minister of Agriculture's letter to the Foreign Secretary of 12 May about the way in which the United Kingdom should react if either a majority vote is forced through, despite the Luxembourg compromise, or the Commission fills a hiatus in marketing years with the new price proposals.

(iii) The record of Mr Hancock's talk with Monsieur Attali in Paris on 12 May.

Next Events

2. Decisions are needed on the line to take on the following occasions:-

(i) The reply to be sent to Monsieur Thorn and Monsieur Tindemans.

(ii) The Foreign Secretary's meeting with Monsieur Cheysson tomorrow afternoon.

(iii) The Prime Minister's meeting with Monsieur Mauroy on Saturday.

(iv) Sir Robert Armstrong's meeting with the Personal Representatives of the Heads of State and Government of France, Germany, Italy, Belgium and Monsieur Thorn's Chef de Cabinet at St Cloud on Saturday.

(v) The emergency meeting of Foreign Ministers on the budget which may be called on Sunday. (This is not certain.)

(vi) The Prime Minister's meeting with President Mitterrand on Monday.

The third year of the 30 May Agreement

3. The attached note by officials makes the following recommendations:-

(i) at the various relevant meetings in the next few days UK representatives should take the line that the British budget problem will have to be solved sooner or later and it will not necessarily be any easier to solve later than it is now. We should therefore continue to urge the other member states and the Commission to negotiate for a solution lasting 4 or 5 years based on objective criteria.

(ii) If it becomes clear that a multi-year solution could only be obtained on terms unacceptable to the Government (and given the risk that the farm price package may somehow be forced through despite our veto) then we should be prepared to negotiate a satisfactory application of the 30 May Agreement to the third year as an interim measure before negotiations on the longer-term solution are resumed.

(iii) To reduce the risk of the type of reaction by the rest of the Community described by the Minister of Agriculture in Cabinet this morning, the Foreign Secretary should send a firm but conciliatory reply to Messieurs Thorn and Tindemans. The recommended draft is attached at Annex B to the note by officials.

(iv) In any negotiations for the application of the 30 May Agreement to 1982, the UK objectives should be as follows:-

(a) The refund for 1982 to be calculated from the Commission estimate of our unadjusted net contribution for that year. (The point of this is that the lowest conceivable Commission estimate is 1500 mecu. Two-thirds of this is well above the 800 mecu figure on which the Germans are now dug in.)

(b) A risk sharing formula in the form applied for the year 1980; but we should accept that it should extend downwards as well as upwards.

(c) In the last resort if (b) above were unobtainable, we should be prepared to accept the 1981 formula, again extended downwards as well as upwards.

(d) We should insist on a formal endorsement by all member states of the deadline suggested in the two Presidents' letter for securing a longer-term agreement - namely before the end of 1982.

(e) We should accept no condition that would in any way prejudice UK views on the nature of the longer-term solution. We should not accept any new constraint on our freedom of action in future farm price negotiations.

(v) Our aim should be to fight off the over-payment issue and to get the other member states to agree to a one year solution on the conditions listed above without any reference to it. We may not succeed in this aim. Ministers may therefore have to re-consider this point if it seems critical to securing an otherwise acceptable deal.

Questions posed in the Minister of Agriculture's letter

4. The objective in the next few days must be to ensure that the other member states and the Commission are in no doubt of the serious consequences if either:-

(i) A majority vote on the price package is forced through despite the Luxembourg compromise; or

(ii) the Commission attempts to fill a hiatus with the new price proposals.

The message must therefore be that any such action would be completely contrary to the established rules of the Community. It would be a flagrantly hostile and provocative act. It would put the United Kingdom's back up against the wall. The rest of the Community would be making a grave and elementary mistake if they supposed that the British Government would just sit back and put up with it. The consequences would no doubt be very regrettable for the United Kingdom. They would also be disastrous for the Community and severely damage the interests of the other member states.

5. The Foreign Secretary is being advised to send a message in these terms to the President of the Commission and similar messages are being conveyed to member Governments by our Ambassadors.

Contingency Planning

6. A full submission on our contingency plans for withholding our contribution is now in an advanced stage of preparation and will be available for submission to Ministers if necessary during the course of next week.

Procedure

7. I am sending copies of this submission to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture. I should be grateful if they would let

you know as early as possible tomorrow morning if their Ministers agree to the recommendations above. A meeting has provisionally been arranged for 11 a.m. tomorrow but we hope that it will not be necessary.

D.H.

D J S HANCOCK

13 May 1982

Cabinet Office

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

EXCHEQUER
REC. 14 MAY 1982
ACTION Mr Edwards 14.5
COPIES TO CST, FST, EMT, Sir D Wass, Sir K Couzens, Mr Littler, Mrs Hedley-Miller, Mr Fitchew, Mr Ridley

14 May 1982

Dear John,

30 May Mandate: UK Policy During the Next Phase

In his minute of 13 May, David Hancock asked for confirmation that the Ministers concerned were content with the recommendations listed in his minute.

The Foreign Secretary is entirely content with the recommendations in the minute but has one comment to make on the draft reply to Thorn and Tindemans attached as Annex B to the Note by Officials.

This relates to the final paragraph. He fully understands the tactical reasons which have led to the inclusion of this paragraph in the draft and recognises that if the Presidency insisted on calling a meeting to discuss the Budget this weekend it would be very disadvantageous for us to refuse to attend. But, for reasons both of substance and practicality, he is not anxious to make such a meeting any more likely that it already is. He faces Ministerial meetings on Sunday of the Four on Berlin, of the Five on Namibia and, in all probability, of the Ten on Falklands sanctions. Our impression is that the impossibility of fitting in a meeting on the Budget as well is increasingly recognised by our partners. He also believes that the final paragraph should be given a more constructive slant.

in Lux; with Haig also joining the gang?

He would like the paragraph amended to read as follows:

'Like you, I am deeply concerned that the present developments should not lead to a major crisis within the Community, and I for my part will do all I can to avoid that coming about. I can assure you that I attach the same urgency to this negotiation as you do, and I am at your disposal.'

/I am

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I am sending copies of this letter to John Kerr, Robert Lowson and David Hancock.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

PRIME MINISTER

14 May 1982

30 MAY MANDATE: UK POLICY DURING THE NEXT PHASE

I have seen Mr Hancock's minute of 13 May to your Private Secretary.

There is clearly no way in which we are going to obtain a long term agreement, other than after months of crisis. I therefore feel that our response to the Commission should be to say that as they have come to this conclusion the UK, as a positive sacrifice, is willing to go for the one year solution and that quite clearly it must be on the terms of the 1980 provisions. We should place upon the Commission the duty of coming forward with such a proposal which they should discuss with our officials before publishing it.

This I think would put us in a very strong positive position in which nobody can accuse us of creating a crisis, and will place the Commission in the difficult situation that they must either say that they are unwilling for the third year to be in accordance with the 1980 provisions or alternatively coming forward with a proposal that would suit us.

I enclose my proposed revisions of the draft letter at Annex B of the note attached to Mr Hancock's minute.

I am sending copies of this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

PETER WALKER

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

PRIME MINISTER

TO MAY MEETING: EC POLICY DURING THE NEXT PHASE

I have seen Mr Ilsemann's minute of 13 May to your Private Secretary.

There is clearly no way in which we are going to obtain a long term agreement, either then after months of crisis. I therefore feel that our response to the Commission should be to say that as they have come to this conclusion the UK, as a positive sacrifice, is willing to go for the one year solution and that quite clearly it must be on the terms of the 1980 provisions. We should phone upon the Commission the duty of coming forward with such a proposal which they should discuss with our officials before publishing it.

This I think would put us in a very strong positive position in which nobody can accuse us of creating a crisis, and will place the Commission in the difficult situation that they must either say that they are unwilling for the third year in a row to be in accordance with the 1980 provisions or alternatively coming forward with a proposal that would suit us.

I enclose my proposed revisions of the draft letter at Annex B of the note attached to Mr Ilsemann's minute.

I am sending copies of this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

PETER WALKER

Suggested revised draft to replace fourth paragraph of draft reply to Messrs Thorn and Tindemaus

"You asked me to consider the possibility of coming to an early agreement on a third year of refunds in respect of 1982 as is provided for in the final sentence of paragraph 7 of the decision of 30 May 1980.

You have clearly come to the conclusion that we have reached a situation where in your judgement there is no possibility of arriving at a broader, long-term structural solution in the near future. I am saddened, of course, that you have reached this conclusion, but I share your desire that we should avoid a serious internal crisis at a time when, as you have suggested, solidarity in Europe is of the utmost importance.

As the United Kingdom's contribution towards reaching a speedy solution I am therefore willing to negotiate for an agreement on a third year of refunds based upon the precise and detailed provisions of the decision that applied in 1980. I would therefore ask the Commission to prepare a formal proposal along these lines. I would point out, of course, that the lump sum approach you mention cannot be reconciled with the 1980 agreement which provided for an agreed proportion of the United Kingdom's estimated net contribution to be refunded, with provision for adjustment of this refund if our actual net contribution exceeded the estimate".

Add at end of letter: "My officials would be only too pleased to discuss with yours the detail of what would be required in a formal proposal."

Consequentially, amend the last sentence of the third paragraph of the draft to read:

"The view of my government is that the best course would be to continue the negotiations for a longer-term solution and to bring them to an early conclusion."

CONFIDENTIAL

Qz.02571

MR COLES

cc: Private Secretaries to:

Foreign and Commonwealth Secretary
Chancellor of the Exchequer
Minister of Agriculture, Fisheries and Food
Sir Robert Armstrong

30 MAY MANDATE: UK POLICY DURING THE NEXT PHASE

I refer to the Minister of Agriculture's minute to the Prime Minister of 14 May and Mr Richard's letter to you of the same date.

2. You asked me whether it would be possible for Departments to agree a revised draft that would meet the concerns of the Foreign Secretary and the Minister of Agriculture. The matter was discussed at a meeting I chaired this morning and a revised text was subsequently agreed by the Minister of Agriculture.

3. The text sent to Monsieur Thorn and Monsieur Tindemans is contained in FCO telegram to Brussels No 113 of 14 May, copy attached.

D.H.

D J S HANCOCK

14 May 1982

CONFIDENTIAL

OO ATHEOS DESKBY 141330Z

OO ROME DESKBY 141330Z

GRS 593
CONFIDENTIAL
FRAME ECONOMIC
DESKBY ALL POSTS 141330Z
FM FCO 141130Z MAY 82
TO IMMEDIATE BRUSSELS
TELEGRAM NUMBER 113 OF 14 MAY
AND TO IMMEDIATE DESKBY UKREP BRUSSELS AND EC POSTS
MIPT: 30 MAY MANDATE
BEGINS

1. THANK YOU FOR THE MESSAGE YOU AND GASTON THORN SENT ME ON 11 MAY ABOUT THE NEXT STAGE OF THE MANDATE NEGOTIATIONS. I AM VERY CONSCIOUS OF THE AMOUNT OF TIME AND EFFORT YOU ARE BOTH DEVOTING TO THIS INTRACTABLE SUBJECT AND GRATEFUL TO YOU FOR IT. I ENTIRELY AGREE WITH YOU THAT WE MUST NOT RELAX OUR EFFORTS TO SETTLE THE BRITISH BUDGET AND RELATED PROBLEMS.

2. I HAVE CONSIDERED CAREFULLY THE ARGUMENTS YOU ADVANCE IN FAVOUR OF A SOLUTION FOR 1982 ALONG THE LINES OF 1980/81, FOLLOWED BY A PAUSE IN THESE NEGOTIATIONS AND THEIR RESUMPTION LATER IN THE YEAR. I CERTAINLY AGREE THAT THE WAY THINGS ARE GOING AT THE MOMENT IS NOT SATISFACTORY. I WAS PARTICULARLY DISAPPOINTED, AFTER THE FAILURE TO NEGOTIATE ON THE BASIS OF YOUR NON-PAPER IN LUXEMBOURG, AT THE WAY THE DISCUSSION WENT AT VILLERS-LE-TEMPLE. AS I TOLD YOU AND MY OTHER COMMUNITY COLLEAGUES I WENT TO THAT MEETING READY TO NEGOTIATE AND I REMAIN READY TO NEGOTIATE. BUT I WAS FACED THERE WITH A TAKE-IT-OR-LEAVE-IT POSITION FROM COLLEAGUES WHICH IN NO RESPECT DIFFERED FROM WHAT THEY HAD SAID WHEN WE LAST MET IN THE COUNCIL ON 27 APRIL. NO COMPROMISE PROPOSAL CAME FORWARD FROM THE PRESIDENCY OR THE COMMISSION. NO COMMUNITY NEGOTIATION CAN BE SUCCESSFULLY BROUGHT TO A CONCLUSION ON THAT BASIS: AND THIS NEGOTIATION IS NO EXCEPTION.

3. BUT WOULD A PAUSE BE LIKELY TO HELP? IS THERE ANY REASON TO BELIEVE THAT THE NEGOTIATIONS WOULD BE EASIER TO BRING TO A SUCCESSFUL CONCLUSION LATER IN THE YEAR? IS IT IN THE INTERESTS OF ANY OF US INDIVIDUALLY, AND OF THE COMMUNITY AS A WHOLE, THAT THIS DIVISIVE NEGOTIATION SHOULD BE YET FURTHER PROLONGED? THESE ARE HARD QUESTIONS TO ANSWER IN THE AFFIRMATIVE. IF THERE IS TO BE SUCH A PAUSE, THERE WOULD CERTAINLY NEED TO BE A FIRM AND PRECISE COMMITMENT BY ALL OF US OF THE SORT YOU SUGGEST TO CONCLUDING THE NEGOTIATIONS AT AN EARLY DATE, AND CERTAINL NOT LATER THAN THE END OF THE YEAR. WE HAD A COMMITMENT TO DECIDE ON THE 30 MAY MANDATE AT THE END OF LAST YEAR. THE VIEW OF MY GOVERNMENT IS THAT THE BEST COURSE WOULD BE TO CONTINUE THE NEGOTIATIONS FOR A LONGER-TERM SOLUTION AND TO BRING THEM TO AN EARLY CONCLUSION.

4. YOU ASKED ME TO CONSIDER THE POSSIBILITY OF COMING TO AN EARLY AGREEMENT ON A THIRD YEAR OF REFUNDS IN RESPECT OF 1982 AS IS PROVIDED FOR IN THE FINAL SENTENCE OF PARAGRAPH 7 OF THE DECISION OF 30 MAY 1980. I AM SADDENED THAT YOU HAVE COME TO THE CONCLUSION THAT WE HAVE REACHED A SITUATION WHERE IN YOUR JUDGEMENT THERE IS NO POSSIBILITY OF AGREEING A BROADER, LONGER-TERM STRUCTURAL SOLUTION IN THE NEAR FUTURE. I AM NOT YET CONVINCED THAT IT WOULD BE EASIER TO AGREE A SOLUTION ALONG THE LINES OF 1980-1981 THAN TO SETTLE THE PROBLEM FOR THE NEXT FEW YEARS. BUT I WOULD BE WILLING TO GIVE URGENT CONSIDERATION TO AN EARLY FORMAL PROPOSAL FROM THE COMMISSION BASED ON THE 30 MAY AGREEMENT, NO MORE AND NO LESS. I WOULD POINT OUT THAT THE LUMP SUM APPROACH MENTIONED IN YOUR LETTER CANNOT BE RECONCILED WITH PARAGRAPHS 1-4 OF THAT AGREEMENT, WHICH SET OUT THE BASIS FOR CALCULATING THE NET PAYMENTS TO THE UK AND PROVIDE FOR A RISK SHARING FORMULA IF THE UK'S ACTUAL NET CONTRIBUTION SHOULD EXCEED THE COMMISSION'S ESTIMATE.

5. LIKE YOU, I AM DEEPLY CONCERNED THAT THE PRESENT DEVELOPMENTS SHOULD NOT LEAD TO A MAJOR CRISIS WITHIN THE COMMUNITY, AND I FOR MY PART WILL DO ALL I CAN TO AVOID THAT COMING ABOUT. I CAN ASSURE YOU THAT I ATTACH THE SAME URGENCY TO THIS NEGOTIATION AS YOU DO, AND I AM AT YOUR DISPOSAL.

ENDS

PYM

NNNN X

FRAME ECONOMIC

ECD(I)

CONFIDENTIAL

16/5/82

EXCHEQUER
REC. 17 MAY 1982
ACTION Mrs Medley
COPIES TO CST, FST, EST, MSTC, MSTL
Sir D Wass, Sir K Couzens
Mr Littler, Mr Lavelle
Mr Edwards, Mr Ilett
Mr Ridley

MR COLES

VISIT OF PRESIDENT MITTERAND 17 MAY

30 MAY MANDATE

The news from Brussels today suggests that the Commission quite probably will respond to the offer (in the Foreign Secretary's message to the two Presidents of 14 May) to consider urgently a formal proposal by the Commission to extend the 30 May agreement to a third year. But the Commission proposal is likely to include an adjustment for the overpayment, whereas our objective, as approved by Ministers on 14 May, is to secure a refund of 66 per cent of the Commission estimate of our unadjusted net contribution for 1982, plus a risk-sharing formula that will give us 75 per cent of any overshoot.

The Commission estimate of our unadjusted net contribution in 1982 is thought to be 1,620 million ecus. 66 per cent of that is 1,069 million ecus. The Commission are trying hard to please the Germans by offering us no more than 800 million ecus. To achieve this end they may average the refund over three years and argue that 800 million ecus gives us far more than 66 per cent on average and therefore more than we are entitled to, so that we should accept it and be grateful. The underlying calculation is as follows -

Year	Unadjusted net contribution	Refunds
1980	1512	1175
1981	1422	1410
1982	1620	800
	4552	3385

3385 million ecus is 74 per cent of 4554 million ecus.

This possible argument makes Monsieur Mauroy's offer of 900 million ecu very useful. It is at least a further step away from 66 per cent of our unadjusted net contribution averaged over three years. But it is still a long way short of our objective. The Prime Minister will therefore need to exercise further pressure on the French in her talks with the President tomorrow.

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Line to take with President Mitterand

The Prime Minister could make the following points:-

i. It remains our firm preference to negotiate a settlement for 4 or 5 years. Why give up when we have got so far?

ii. But if others decided that this was impossible, then we would be prepared to consider urgently a formal proposal by the Commission in the terms of paragraph 7 of 30 May agreement. This paragraph requires the Commission to make proposals "on the lines of the 1980 to 1981 solution" and it requires the Council to act accordingly.

iii. In the United Kingdom view, the essential features of the 30 May agreement which would need to be reflected in its extension to 1982 are -

a. a refund of 66 per cent of the Commission estimate of the United Kingdom's unadjusted net contribution for 1982. We believe this figure to be 1620 million ecus. The 30 May agreement therefore requires a refund of 1069 million ecus.

b. a risk-sharing formula giving the United Kingdom 75 per cent of an overshoot in our unadjusted net contribution at the margin.

[This phrase is deliberately vague to obscure the difference between the risk-sharing formula for 1980 and that for 1981]

President Mitterand will not wish to go into detail. But if he wants the matter further discussed with his officials, I am of course at their disposal.

I would recommend the Prime Minister not to mention the figure of 1200 million ecus in President Mitterand's presence. We do not know for sure that Monsieur Attali has ever reported that figure to his President. He mentioned it in totally confidential discussions with Sir Robert Armstrong and myself. It would endanger this useful channel of communication with the French President if Monsieur Attali was embarrassed in front of his boss.

There may be more news of the Commission's intentions late tonight. If so, I will submit a further note tomorrow morning before the President arrives.

D J S HANCOCK

Cabinet Office

16 May 1982

DISTRIBUTION

Private Secretaries to:

Foreign and Commonwealth Secretary
Chancellor of the Exchequer
Minister of Agriculture, Fisheries and Food
Sir Robert Armstrong

E C BUDGET [ADVANCES]

IMMEDIATE

Mr de Ferkblanque ECD(I).

ECD (I) (3)

MR BULLARD

LORD BRIDGES

MR HANNAY

RESIDENT CLERK

MR ASHFORD } TREASURY
Mr Edwards
MR SHORE } TREASURY
Rhodes
MR HORNE } CABINET OFFICE
Mr Hancock

Mr Andrews, MAFF.

CONFIDENTIAL

DESKBY 17Ø7ØØZ

FM LUXEMBOURG 162130Z MAY 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 124 OF 17 MAY

INFO UKREP BRUSSELS AND OTHER EC POSTS, STRASBOURG.

FROM UKREP BRUSSELS.

PROPOSAL FOR 1982.

1. THE COMPENSATION TO THE UNITED KINGDOM FOR 1982 IS FIXED AT 8ØØ MILLION ECU, ON THE BASIS OF A NET CONTRIBUTION ESTIMATED AT 1.53Ø MILLION ECU. THE NET CONTRIBUTION OF THE UK CANNOT, AFTER COMPENSATION, BE LESS THAT 73Ø MILLION ECU.

52.3%

IF THE NET CONTRIBUTION FOR 1982 PROVES TO BE MORE THAN 1.53Ø MILLION ECU, THE ADDITIONAL SUM WILL BE DIVIDED IN THE FOLLOWING WAY:

- INCREASE FROM 1.53Ø TO 1.58Ø MILLION, ENTIRELY AT THE EXPENSE OF THE UNITED KINGDOM:
- INCREASE FROM 1.58Ø TO 1.73Ø MILLION : 5Ø PER CENT AT THE EXPENSE OF THE UNITED KINGDOM AND 5Ø PER CENT AT THE EXPENSE OF THE OTHER NINE MEMBER STATES:
- BEYOND 1.73Ø, 25 PER CENT AT THE EXPENSE OF THE UNITED KINGDOM AND 75 PER CENT AT THE EXPENSE OF THE OTHER MEMBER STATES.

2. THE COMMISSION UNDERTAKES TO CONTINUE ITS EFFORTS TO ARRIVE BEFORE THE END OF 1982 AT A LONGER-TERM ARRANGEMENT. THIS ARRANGEMENT WILL TAKE ACCOUNT OF THE RELEVANT ELEMENTS RESULTING FROM THE EXPERIENCE OBTAINED OVER THREE YEARS FROM THE FUNCTIONING OF THE MAY 3Ø 198Ø MECHANISM AND, IN PARTICULAR, OF THE RESULT OF THE APPLICATION OF THIS ARRANGEMENT WITH RESPECT TO FORECASTS THAT WERE MADE INITIALLY.

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THOMAS

FCO ADVANCE TO:-
FCO DE FONBLANQUE
CAB HANCOCK
MAFF ANDREWS
TSY EDWARDS

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CONFIDENTIAL

DESKBY 17Ø7ØØZ

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I

(Information)

COUNCIL

Council conclusions of 30 May 1980 on the United Kingdom contribution to the financing of the Community budget

1. The net United Kingdom contribution for 1980 will be calculated on the basis of the present Commission estimate (1 784 MEUA). 1 175 MEUA will be deducted from this figure. This leaves a United Kingdom contribution of 609 MEUA for 1980.

2. The net United Kingdom contribution for 1981 will be calculated on the basis of the Commission estimate of 2 140 MEUA. The United Kingdom's 1980 net contribution will be increased by a percentage equal to the difference between 1 784 and 2 140 MEUA, namely 19·9 % or 121 MEUA. The net United Kingdom contribution for 1981 therefore becomes 730 MEUA.

3. The United Kingdom contribution, based on the above calculations, is reduced for 1980 and 1981 by 2 585 MEUA (1 175 plus 1 410).

4. If the United Kingdom's actual contributions for 1980 and 1981 are higher than 1 784 and 2 140 MEUA respectively the difference will be split: for the first year 25 % will be borne by the United Kingdom and 75 % by the other eight Member States. For the second year: increase from 730 to 750 MEUA to be borne in full by the United Kingdom; from 750 to 850 MEUA, 50 % to be borne by the United Kingdom and 50 % by the other eight Member States; above 850 MEUA, 25 % to be borne by the United Kingdom and 75 % by the others.

5. Payments over the period 1980 to 1982 should be made by means of the adapted financial mechanism and the supplementary measures proposed by the Commission. The financial mechanism will continue to function automatically until the end of 1982.

6. The credits are entered in the budget of the following year, following the precedent of the financial mechanism.

At the request of the United Kingdom the Council can decide each year on a proposal from the Commission to make advances to permit the accelerated implementation of the supplementary measures.

7. For 1982, the Community is pledged to resolve the problem by means of structural changes (Commission mandate, to be fulfilled by the end of June 1981: the examination will concern the development of Community policies, without calling into question the common financial responsibility for these policies which are financed from the Community's own resources, or the basic principles of the common agricultural policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them). If this is not achieved, the Commission will make proposals along the lines of the 1980 to 1981 solution and the Council will act accordingly.

8. The Council reaffirms the conclusions adopted by it (in its composition of Ministers of Economic Affairs and Finance) on 11 February 1980 [see Annex to 5081/80 PV/CONS 5 ECOFIN 9], which included reference to the 1 % VAT own resources ceiling.

9. It is important for the future well-being of the Community that day to day decisions and policy

making should function effectively, particularly during the period when the review provided for in paragraph 7 is under way. With this objective in mind all Member States undertake to do their best to ensure that Community decisions are taken expeditiously and in particular that decisions on agricultural price fixing are taken in time for the next marketing year.

CONFIDENTIAL

pwp

cc Sir K Couzens
Mr Littler
Mr Hedley-Miller
Miss Court
Mr Hall

I have added a short comment on the next page. AJCE 17/5

1. MR EDWARDS
2. CHANCELLOR

FROM: J G PEET
DATE: 17 May 1982

INFORMAL FINANCE MINISTERS' MEETING : THE MANDATE

I suggested on Friday that it would probably be necessary to update material on the Mandate to reflect the weekend's discussions.

cr A 2. At yesterday's meeting, Thorn circulated the attached new proposal for a one-year "solution" to the UK budget problem.

cr B 3. The Foreign Secretary said that he had difficulty in seeing how the proposal could be squared with the phrase "along the lines of" in paragraph 7 of the 30 May conclusions (it offers only 52% compensation compared with 66% in 1980 and 1981; it sets a floor to the UK net contribution without a ceiling*). Genscher seemed open to accepting the Commission formula except for the upwards risk-sharing provisions where he suggested that "trop paye" would have to be taken into account. Cheysson also referred to "trop paye" and said that the wording which referred to "net contributions" was unacceptable.

4. Foreign Ministers agreed to meet again tonight at 6 p.m. to examine the proposal further. Meanwhile Agriculture Ministers will also be meeting in an attempt to reach agreement on this year's price-fixing; Mr Walker will come under further pressure not to block it. In the background is the issue of sanctions against Argentina, a decision on which also needs to be taken tonight.

5. There is unlikely to be any substantive discussion among Finance Ministers, but all the above points will doubtless be very much in peoples' minds.

J G PEET

J G PEET

* and the risk sharing provisions would be less favourable to the UK.

Thorn's proposal is highly provocative. In the margins of ECOFIN, as opportunity arises, you may like to signal -

(a) your dismay that the Commission should have seen fit to put round such a proposal;

(b) your puzzlement as to how it can purport to be 'along the lines of the 1980 and 1981 solution'; and

(c) your certainty that the UK could not possibly accept such a proposal.

AJCE

A J C EDWARDS

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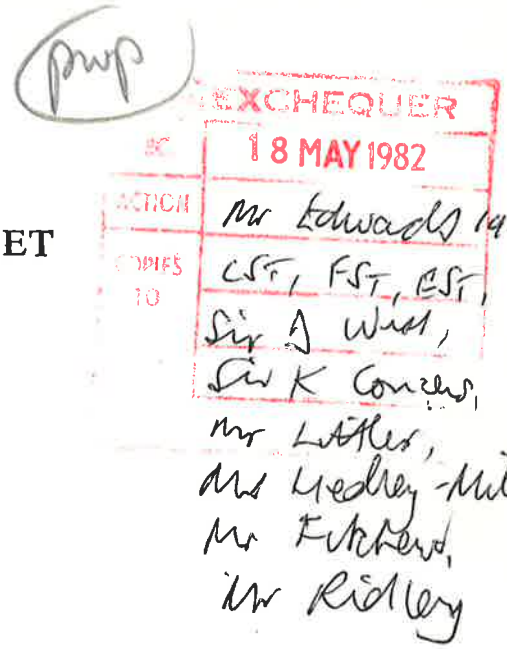
10 DOWNING STREET



From the Private Secretary

MR. HANCOCK

30 May Mandate: UK policy during the next phase

As I told you before the Prime Minister's departure for Scotland on 14 May, Mrs. Thatcher agreed with the recommendations in paragraph 3 of your minute of 13 May, subject to the views of her Ministerial colleagues. The draft letter from the Foreign and Commonwealth Secretary to Monsieur Thorn and Monsieur Tindemans was subsequently revised in the light of further correspondence.

I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister for Agriculture, Fisheries and Food and Sir Robert Armstrong.

A. J. COLES

17 May 1982

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