

PREM 19/737

Confidential Filing

The Community Budget
Developments in the European
Community

EUROPEAN

POLICY

Part 1 May 1979

Part 2 Dec 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4-12-81		26-1-82					
10-12-81		28-1-82					
11-12-81		29-1-82					
16-12-81		30-1-82					
17-12-81		3-2-82					
18-12-81							
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PART 13 ends:-

Hansard extract 3/2/82

PART 14 begins:-

RTA to PM 3/2/82

European Community Budget 1982

The Lord Privy Seal (Mr. Humphrey Atkins): With permission, I shall make a statement about the problem which has arisen because of the difference of view between the Council and the European Parliament on the adoption of the 1982 Community budget. When I reported to the House on 27 January about the meeting of the Council of Ministers on 26 January, I said that the Council had taken no final decisions on this matter. I can now report to the House that the Council has subsequently decided that it should institute proceedings before the European Court of Justice concerning this budget; that meanwhile member States will pay in full the sums resulting from the budget as adopted; and that the Council will open discussions with the Parliament and the Commission as soon as possible to resolve the problem.

We hope that these discussions will succeed. At the same time, we have to protect our legal position and ensure that, if an answer is not found by discussion, we shall have a ruling of the Court. By far the best way of doing this is through an action by the Council as a whole.

Some other member States were in fact willing to accept the budget as approved, and were reluctant to go to the Court. The Presidency therefore proposed, as a compromise, that the Council should take the matter to the Court but that all members should pay their contributions on the basis of the budget as adopted. We accepted this.

Because, in our view, that part of the budget added by the Parliament after the second Budget Council on 24 November was not legally adopted, we cannot treat it, as we do the rest of the budget, as a direct charge on the Consolidated Fund on the basis of section 2(3) of the European Communities Act 1972. We shall, therefore, make a separate payment of our part of this extra sum—about £2.5 million a month. The authority of Parliament will be sought for this payment in a Supplementary Estimate for the current financial year and in a main Estimate for 1982-83. Meanwhile the payment will be met by means of repayable advances from the Contingencies Fund.

Once the issue has been resolved, preferably through discussions between the Community institutions, but, if not, through a judgment of the European Court, we shall know the amount which we are obliged to pay. We shall then either receive a repayment or be under a firm Community obligation to pay the full amount.

Mr. Eric S. Heffer (Liverpool, Walton): Is the right hon. Gentleman aware that it can be argued rightly that the European Assembly—and I call it an assembly—has exceeded its powers by interpreting the non-compulsory expenditure on a wider basis than is generally accepted by the Council of Ministers? Is the right hon. Gentleman aware that that is a matter of principle?

While it is true that the extra budget agreed by the Assembly, beyond what the Council has agreed, would marginally benefit Britain, certainly in relation to the regional and social funds, that is outweighed in other directions and therefore it is right to resist the decision. Is the right hon. Gentleman aware that we believe that the Assembly's decision should be resisted?

We understand why the Government are in some difficulty in not wanting to go to the European Court on their own, but we regret that the Government were unable to persuade fellow EEC members to withhold payment

until the court had decided. Under the circumstances, is the right hon. Gentleman aware that we shall have to look very closely at the proposed payment and reserve our position? Possibly we shall want a debate on the whole question.

Mr. Atkins: I am grateful to the hon. Gentleman. I understand the position that he has outlined. Of course it will be possible to debate the matter when the Supplementary Estimate is laid before the House.

I agree that although in this case the amounts are not enormous, a matter of principle is involved. There could be far-reaching implications for the future unless the matter is settled. I agree that it would have been preferable if we had been able to persuade our Community partners to take part in a joint action by the Council and yet in the meantime withhold the extra payment. We believe that a joint approach by the Council would be more powerful than an individual approach by Britain. Therefore, we agreed to the course that I have outlined. I emphasise that it is of only a temporary nature. If the decision is that the Parliament acted illegally, the money will be repaid. That is guaranteed. If it acted legally there is a Community obligation which we would have had to fall in with in any case.

Mr. Jim Spicer (Dorset, West): My right hon. Friend has made it clear that the problem is temporary. Can he give a rough estimate of how long it will be before the Court gives its opinion on the matter?

Mr. Atkins: No, Sir, I cannot. That is a matter not for the Government but for the European Court of Justice. Past experience shows that the European Court does not move all that quickly. Nevertheless, I hope that we can get the matter resolved by the summer.

Mr. Russell Johnston (Inverness): Can the Minister remind the House on what items the European Parliament wished to increase Community expenditure? What was the British Government's view and was it reflected in the European Parliament by the speeches and votes of the members of the Conservative group there?

Mr. Atkins: As to the latter part of the question, the answer is "No, Sir." As to the former part of the question, we are having a dispute with the European Parliament about whether three of four items involve obligatory or non-obligatory expenditure. We believe that in those three of four areas they are non-obligatory and therefore that the European Parliament is acting incorrectly. This is a matter that can be resolved only by discussion between the Council and the Parliament or by the Court.

Mr. Douglas Jay (Battersea, North): Can the Minister at least tell us what figure will be included in the United Kingdom budget estimates for 1982-83 as our total net contribution to the EEC budget in that period?

Mr. Atkins: I have explained that the amounts above those approved by the Council will be met by separate payment, for which we shall seek separate authority.

Mr. Michael Shaw (Scarborough): Is my right hon. Friend aware that the action that is being taken by the Council is considerably more robust than the action taken hitherto by the Council on similar occasions—for example, in 1979? Is he further aware that, although it is desirable to have a firm ruling on the state of the treaty, the amounts involved on this occasion were so small that

Mr. Atkins: I agree with my hon. Friend that the settlement of the future of the Community budget and our problem are matters that deeply concern everybody in this country. That is why we are spending considerable time and effort in seeking to persuade our European partners that a just and reasonable settlement should be reached. We have not yet reached agreement, but we are able to discuss the issues with our European partners without falling out or having the disagreements and rows that Labour Members constantly believe that we have—presumably because whenever they disagree with one another they have rows.

Mr. McNamara: Is the right hon. Gentleman aware that on the question of the budget, as on other matters, we accept that the Government's priorities are as set out by the right hon. Gentleman in his initial reply to my hon. Friend the Member for Rother Valley (Mr. Hardy), when he said that the first priority was the Community's interest and that, only second, came the British national interest? Is the right hon. Gentleman aware that Hull, which once had more than 100 trawlers, now has fewer than 10, and also has more than 1,000 fishermen unemployed, empty fish houses and people out of work in the fishing and processing industries? All that has been caused by the failure of the Community either to achieve a proper common fisheries policy or to find ways of assisting regions that have been adversely affected by the policies of the Community. The first priority of any Community budget—

Mr. Speaker: Order. I hope to call other hon. Members before the end of Question time.

Mr. Atkins: The advantages to this country of belonging to the Community are considerable, as I and other Ministers have repeatedly said, and we intend to go on saying it. We must seek to make the Community work better, because that will increase the advantages to us and other members. Therefore, that is what we are seeking to do the entire time. In relation to the points made by the hon. Gentleman about the budget and other matters, our objective is to make the Community work better.

Mr. Michael Shaw: Does my right hon. Friend agree that it is necessary in the negotiations not just to seek a reduction in the agricultural fund, but to seek a wider basis for the regional and social funds?

Mr. Atkins: We have consistently put forward that point of view and there is a wide measure of agreement among Community members that the regional and social funds should be developed. We have been seeking agreement that the amount spent on the CAP, as a percentage of the total Community budget, should be gradually reduced.

Mr. Speaker: Mr. Eric Heffer.

Mr. Skinner: Here comes the statesman.

Mr. Heffer: Will the Government on this occasion be genuinely serious about the future budget negotiations? We have had continual negotiations in the past, but no permanent settlement has been reached. It is estimated that the contribution will be about £1,400 million. May we know now—I press the right hon. Gentleman as I pressed him the other day—whether the Government are genuinely serious this time and will make a stand on behalf of the British people?

Mr. Atkins: The figure that the hon. Gentleman used is the unadjusted contribution. He knows that that will be adjusted because of the stand that the Government took in 1980. The arrangements made in 1980 apply to 1981 and 1982. Therefore, in practice, that will not be our contribution. Our determination to solve the problem is as great as it was in 1980, and is a good deal stronger than anything that his Government put up.

Mr. Whitney: Does my right hon. Friend agree that the last question by the hon. Member for Liverpool, Walton (Mr. Heffer), and many other questions this afternoon, shows the illogicality of those who are persistently hostile to British membership of the Community in that when there is agreement in the Community the Government are attacked for not maintaining British interests, but when the British Government maintain British interests Government critics exalt in what they allege to be disagreement and disarray among our Community partners?

Mr. Atkins: Yes. I have never detected much logic in the Opposition's position.

Mr. Speaker: Order. Before we go on to the statement I wish to apologise sincerely to the hon. Member for Newham, North-East (Mr. Leighton). I should not have passed a comment that was open to misinterpretation. That is the price of trying to be too clever in a hurry.

in the view of many it would have been better to reach agreement now and to seek the conciliation that has been sought for several years by the European Parliament round the table?

Mr. Atkins: Yes, Sir. The council has resolved to engage in discussion with the Parliament in the hope of solving the matter by agreement. If agreement is not forthcoming, we shall still regard the matter of principle as important enough to place the whole matter before the European Court of Justice. I am glad to say that our partners agree with that. Therefore, that course is being pursued in parallel with a course of discussion and conciliation.

Mr. Nigel Spearing (Newham, South): Does the Lord Privy Seal recall that during the debates on the European Assembly Elections Bill, there were fears that the new Assembly would exert its power by extending control over financial matters? Although those fears were pooh-poohed at the time, does the right hon. Gentleman agree that that is now happening?

Mr. Atkins: Yes, Sir. In certain respects the European Parliament has exceeded its powers and that is why we are placing the matter before the court.

Several Hon. Members *rose*—

Mr. Speaker: Order. I propose to call those hon. Members who have been standing in their places, but not others.

Mr. Anthony Nelson (Chichester): Will not my right hon. Friend agree that at least in principle an important guideline for the Government should be the views of the European Parliament which, after all, is a directly elected body? [*Interruption.*] Is there not something of a paradox in the attitude of the Opposition who, while recognising that the views of that Assembly of Parliament would be of advantage to Britain, nevertheless allow other matters of principle to outweigh that judgment? Is that not a triumph of dogmatism over national interest?

Mr. Atkins: Yes, Sir, and not for the first time. I am certain that Members of the European parliament, who are directly elected, seek to do what they believe to be in the interests of their constituents, but they are constrained—as we are not—by legislation. The Government believe that it has gone beyond what the legislation allows. That is why we are going to the court for a determination.

Mr. Guy Barnett (Greenwich) *rose*—

Mr. Speaker: I shall call Front Bench Members after the Back-Benchers.

Mr. David Stoddart (Swindon): Is the right hon. Gentleman aware that many hon. Members—perhaps most—resent attempts by the European Assembly to filch powers that properly belong to the Council of Ministers, whose members—including the right hon. Gentleman—are responsible to their national Parliaments? If the Assembly continues to try to usurp the powers of this House will he come forward with a European Assembly (Repeal) Bill and withdraw our delegation?

Mr. Atkins: No, Sir, I shall not do that. However, we shall ensure, as far as we can, that the European Parliament acts only within the constraints laid on it.

Mr. Albert McQuarrie (Aberdeenshire, East): My right hon. Friend knows of British farming's serious

concern about the failure to agree the 1982 budget. Will he give an assurance that in further budget discussions, there will be no revaluation of the green pound, which would be detrimental to Britain's farming industry, especially in the light of the variations between sterling and the deutschmark?

Mr. Atkins: The matters in dispute between the Council of Ministers and the European Parliament do not include agricultural issues. Therefore, that point does not arise under the procedures that I have outlined.

Mr. Bob Cryer (Keighley): Is this not an example of lickspittle subordination to the Common Market? If legislation is needed for the supplementary payments, is it not illegal for the Government to make them in advance of legislation approved by the House? Is there not a marked contrast between the way in which the Government are apparently prepared to go to any lengths to meet the supplementary payments, and their attitude towards local councils which want to make a supplementary payment to maintain decent services that are crucial to the people of those local authority areas? The Government then produce anti-local government legislation.

Mr. Atkins: No, Sir. There is nothing illegal in what the Government propose. In the first instance, the money will be found from the Contingencies Fund by a repayable advance and parliamentary authority will be sought in the manner that I have described.

By this agreement we have ensured that the whole council—all member Governments—are joining together in an action before the European Court where the legality of the European Parliament's decision can be tested.

Mr. Robin Squire (Hornchurch): Does my right hon. Friend consider that a factor in some of our colleagues' attitudes to budgetary payments is Britain's outstanding financial success in the past year on payments to the EEC, which have been less than half of 1 per cent. of total expenditure.

Mr. Atkins: Yes, Sir. There is no doubt that that fact rankles considerably on the Benches opposite.

Mr. Dennis Skinner (Bolsover): Following the remarks of my hon. Friend the Member for Keighley (Mr. Cryer), is it not a scandal that while the Government tell local authorities to slash spending on education, the mentally handicapped, social services for the old, and to force up council house rents for 5 million tenants, local authorities that suggest that they should spend a bit more money to look after them are told by the Government and the Secretary of State for the Environment that they cannot spend it? Yet, when it is the Common Market, the Government can say "It is only a few extra million quid" in their retrospective legislation. I can tell my right hon. Friend—

Mr. Speaker: Order. I propose that the hon. Gentleman tells him afterwards.

Mr. Atkins: Once again, it is clear that the hon. Gentleman has not been listening, because the payments do not involve any extra expenditure for the Government. They are interim payments which we shall either find we are obliged to make or, alternatively, that we will have repaid. That is a different matter from the hon.

[Mr. Atkins]

Gentleman's description. It will be determined whether we are legally obliged to pay or not. If we are not, we shall get the money back.

Mr. Tony Marlow (Northampton, North): Will my right hon. Friend take this opportunity to clarify to the few remaining Euro-fanatics the fact that the British people have but one Parliament and that that is this House, and make it plain that the claret-swilling travelling circus on the other side of the Channel, which has no legislative powers, is purely an Assembly and that he does not intend that it should become anything more than that.

Mr. Atkins: Nevertheless, it is an Assembly with certain powers and we are discussing whether it has exceeded them.

Mr. Thomas Torney (Bradford, South): In the Minister's negotiations on the Budget, has he taken cognisance of the discrepancies reported by the court of auditors of the EEC about some millions of pounds in the Common Market Commission? Further, has he taken into account the £10 million fraud, from the findings of the same auditors, by European farmers using loopholes in EEC regulations? What will the Government do about that and will they take it into account when there are any further discussions on the Budget, in the European Court, or whatever?

Mr. Atkins: Yes, Sir. Of course these matters will be taken into account and we shall ensure that financial probity is observed, but I am not talking about that matter now. The proceedings I have described to the House relate to a dispute between the European Parliament and the Council of Ministers. That matter is before us and I have described what we shall do on that front. I should be happy to answer questions raised by the hon. Gentleman at another time.

Mr. Alex Pollock (Moray and Nairn): Following the answer given to my hon. Friend the Member for Aberdeenshire, East (Mr. McQuarrie), is the Minister aware that the reported remarks of my noble Friend the Secretary of State for Foreign and Commonwealth Affairs, to the effect that he is prepared to block CAP decisions until the overall contribution from Britain is resolved, have caused great concern to the farmers in my constituency? Is the right hon. Gentleman aware that any further delay in announcing the European agricultural price review can only cause great financial hardship in those quarters?

Mr. Atkins: I note what my hon. Friend says, but it does not arise out of my statement.

Mr. Guy Barnett: As it is clear that it is the Government's view that that part of the budget which was added by the Assembly was not legally adopted and, therefore, does not fall within moneys which can be taken from the Consolidated Fund under the European Communities Act which requires the authority of this House, what action will the Government take if this House refuses to give that authority?

Mr. Atkins: Then we shall have to reduce our payments, but we shall have to see what the House does.

Railways (Industrial Action)

Mr. Speaker: There is an application under Standing Order No. 9. I call the hon. Member for Nuneaton (Mr. Huckfield)—

Mr. Tristan Garel-Jones (Watford): On a point of order, Mr. Speaker. Further to the point of order raised on 26 January by my hon. Friend the Member for Preston, North (Mr. Atkins), about the possible conflict of interest as a result of the links of the hon. Member for Nuneaton (Mr. Huckfield) with ASLEF and the Transport and General Workers Union, I seek your guidance about another possible conflict of interest. Should hon. Members refer to him as the hon. Member for Nuneaton or as the hon. Member for Wigan? I appreciate that Nuneaton's gain will certainly be Wigan's loss, but—

Mr. Speaker: Order. That is not a fair point of order.

Mr. Les Huckfield (Nuneaton): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 9, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the failure of the British Railways Board to honour its agreement to pay all railwaymen a 3 per cent. increase from January and the consequences for industry and the travelling public."

I am extremely mindful, Mr. Speaker, of your remarks last week, but there have been some important developments since then. The matter is specific, because the dispute has already been referred to two sets of arbitration—the first last July, and the second last August—and both judgments have either been rejected or overturned by the British Railways Board. We are now told that the parties involved should accept a third form of inquiry.

The matter is urgent because, although an inquiry may be about to be set in motion, it will probably be inconclusive, not only because ASLEF has said that it will not attend it, but because only yesterday the British Railways Board said that the inquiry and ACAS were no solution to the problem. Since I last made an application to move the Adjournment of the House under Standing Order No. 9, there has been a specific occurrence. ASLEF has changed the days on which it intends to take strike action and that will obviously have a different, and perhaps more intensified effect on the railways. There is a strong feeling that the British Railways Board may retaliate tomorrow by closing, or threatening to close, the whole railway system.

I am sure that you will appreciate, Mr. Speaker, that those are serious and important developments. In addition, the effects of the strike are worse than they were, and it has been forecast that the board has lost about £100 million of revenue. The first day of action was 13 January. We are now in the fourth week of a major national dispute, and the time is long overdue for the House to have an opportunity to voice its opinion about it.

Many of us believe that the Government are responsible, in no small measure, for the dispute, and that this is the first example of the Government's new policy towards the trade union movement. However, I shall not discuss the merits of that now. Many of us are also concerned because the Secretary of State for Transport has voiced his opinion and has intervened in the dispute. However, he has done so outside the House. If the



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THE EUROPEAN COMMUNITY BUDGET 1982

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WITH PERMISSION, I SHALL MAKE A STATEMENT ABOUT THE PROBLEM WHICH HAS ARISEN BECAUSE OF THE DIFFERENCE OF VIEW BETWEEN THE COUNCIL AND THE EUROPEAN PARLIAMENT ON THE ADOPTION OF THE 1982 COMMUNITY BUDGET. WHEN I REPORTED TO THE HOUSE ON THE 27TH OF JANUARY ABOUT THE MEETING OF THE COUNCIL OF MINISTERS ON THE 26TH OF JANUARY, I SAID THAT THE COUNCIL HAD TAKEN NO FINAL DECISIONS ON THIS MATTER. I AM NOW GLAD TO BE ABLE TO REPORT TO THE HOUSE THAT THE COUNCIL HAS SUBSEQUENTLY DECIDED THAT IT SHOULD INSTITUTE PROCEEDINGS BEFORE THE EUROPEAN COURT OF JUSTICE CONCERNING THIS BUDGET; THAT MEANWHILE MEMBER STATES WILL PAY IN FULL THE SUMS RESULTING FROM THE BUDGET AS ADOPTED; AND THAT THE COUNCIL WILL OPEN DISCUSSIONS WITH THE PARLIAMENT AND THE COMMISSION AS SOON AS POSSIBLE TO RESOLVE THE PROBLEM.

WE HOPE THAT THESE DISCUSSIONS WILL SUCCEED. AT THE SAME TIME, WE HAVE TO PROTECT OUR LEGAL POSITION, AND ENSURE THAT, IF AN ANSWER IS NOT FOUND BY DISCUSSION, WE SHALL HAVE A RULING OF THE COURT. BY FAR THE BEST WAY OF DOING THIS IS THROUGH AN ACTION BY THE COUNCIL AS A WHOLE.

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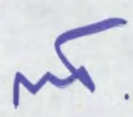


AS SOME OTHER MEMBER STATES WERE IN FACT WILLING TO ACCEPT THE BUDGET AS ADOPTED, AND WERE RELUCTANT TO GO TO THE COURT, THE PRESIDENCY PROPOSED, AS A COMPROMISE, THAT THE COUNCIL SHOULD TAKE THE MATTER TO THE COURT BUT THAT ALL MEMBER STATES SHOULD PAY THEIR CONTRIBUTIONS ON THE BASIS OF THE BUDGET AS ADOPTED. WE ACCEPTED THIS.

BECAUSE, IN OUR VIEW, THAT PART OF THE BUDGET ADDED BY THE PARLIAMENT AFTER THE SECOND BUDGET COUNCIL ON THE 24TH OF NOVEMBER WAS NOT LEGALLY ADOPTED, WE CANNOT TREAT IT, AS WE DO THE REST OF THE BUDGET, AS A DIRECT CHARGE ON THE CONSOLIDATED FUND ON THE BASIS OF SECTION 2(3) OF THE EUROPEAN COMMUNITIES ACT 1972. WE SHALL THEREFORE MAKE A SEPARATE PAYMENT OF OUR PART OF THIS EXTRA SUM (ABOUT £2.5 MILLION PER MONTH). THE AUTHORITY OF PARLIAMENT WILL BE SOUGHT FOR THIS PAYMENT IN A SUPPLEMENTARY ESTIMATE FOR THE CURRENT FINANCIAL YEAR AND IN A MAIN ESTIMATE FOR 1982/3. MEANWHILE THE PAYMENT WILL BE MET BY MEANS OF REPAYABLE ADVANCES FROM THE CONTINGENCIES FUND. ONCE THE ISSUE HAS BEEN RESOLVED, PREFERABLY THROUGH DISCUSSIONS BETWEEN THE COMMUNITY INSTITUTIONS, BUT, IF NOT, THROUGH A JUDGMENT OF THE EUROPEAN COURT, WE SHALL KNOW THE AMOUNT WHICH WE ARE OBLIGED TO PAY. WE SHALL THEN EITHER RECEIVE A REPAYMENT OR BE UNDER A FIRM COMMUNITY OBLIGATION TO PAY THE FULL AMOUNT.

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FRAME ECONOMIC
FM UKREP BRUSSELS 021632Z FEB 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 395 OF 2 FEBRUARY 1982
AND TO MANILA (FOR PS)
INFO ROUTINE COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS
INFO SAVING BRUSSELS



MIPT: 30 MAY MANDATE

1. I ALSO SAW NOEL AND THORN (WITH DURIEUX AND RAVASIO) SEPARATELY AND GAVE THEM COPIES OF YOUR MESSAGE.

2. THORN SAID THAT IT MERITED REFLECTION. HE UNDERSTOOD THE NEED FOR PROGRESS DURING FEBRUARY. BUT HE HIMSELF WOULD BE AWAY IN AUSTRALIA AND NEW ZEALAND FROM 20 FEBRUARY TO 1 MARCH, THOUGH HE COULD OF COURSE BE REPRESENTED BY ORTOLI AT ANY MEETING ON 22/23 FEBRUARY. THE COMMISSION WERE NOW WORKING ON REVISED FIGURES AND THEY WOULD BE AVAILABLE BEFORE 22 FEBRUARY. I SUGGESTED THAT THE FIGURES BE CIRCULATED NEXT WEEK IN A DISCREET WAY SO THAT MEMBER GOVERNMENTS COULD ASK QUESTIONS AND ESTABLISH AN AGREED DATA BASE BEFORE MINISTERS CAME BACK TO THE MATTER. THORN DID NOT COMMIT HIMSELF. HE SEEMED RELUCTANT TO CONTEMPLATE DISCUSSION ON 22/23 FEBRUARY EXCEPT PERHAPS IN ORDER TO FIX FUTURE PROCEDURE EG A SPECIAL MEETING IN MARCH.

3. I EXPLAINED OUR POSITION ABOUT THE FINANCIAL MECHANISM ON THE LINES OF MIPT. THORN SAID THAT HE UNDERSTOOD, THOUGH IT WAS CLEAR TO ME FROM HIS FACE HE WAS NOT GOING ALONG WITH US.

4. NOEL SAID THAT A LOT OF WORK WAS REQUIRED TO REVISE THE FIGURES WHICH THE SERVICES HAD PRODUCED BEFORE THE 24/25 JANUARY MEETING. FOR EXAMPLE THEY HAD BEEN BASED ON A UK GDP SHARE CALCULATED WITH THE EXCHANGE RATE AS IN FEBRUARY 1981. THE COMMISSION THOUGHT IT ESSENTIAL TO GET THE FIGURES ON A BASIS WHICH WAS AS LITTLE OPEN TO CRITICISM AS POSSIBLE. EVEN THEN, THE FIGURES FOR 1982 WOULD BE OPEN TO VERY CONSIDERABLE CHANGE AS A RESULT OF WORLD PRICES AND OTHER FACTORS AND IT WAS VIRTUALLY IMPOSSIBLE TO PRODUCE ANYTHING WORTHWHILE FOR 1983/84. DURIEUX AND RAVASIO REINFORCED THIS MESSAGE AFTER MY MEETING WITH THORN.

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5. I HAVE GIVEN THOSE CONCERNED, INCLUDING THUYSBAERT, THE PIECE OF PAPER ON THE FIGURES CONTAINED IN MIFT.

6. THE DOG THAT FAILED TO BARK IN ANY OF THESE CONVERSATIONS WAS THE PROBLEM OF HOW THE U.K. REFUND IS TO BE FINANCED, THOUGH NOTERDAEME HAD TOLD ME LAST NIGHT THAT THIS WAS TINDEMANS' PRINCIPAL PREOCCUPATION. I HEAR THAT TINDEMANS AND THORN SPENT MUCH TIME RINGING THEIR HANDS OVER IT WHEN THEY MET ON FRIDAY EVENING.

7. I AM GIVING ORTOLI LUNCH ALONE TOMORROW AND WILL WORK ON HIM. HE IS THE MAIN COMMISSION SOURCE OF OPPOSITION TO THE FINANCIAL MECHANISM.

8. I WAS TOLD YESTERDAY THAT THORN WAS DOING HIS BEST TO VETO THE MEETING OF AMBASSADORS ON THURSDAY. BUT NOTERDAEME SAID LAST NIGHT THAT IT WAS STILL ON.

FCO ADVANCE TO:

FCO - HANNAY; DE FONBLANQUE ECD(I)

CAB - HANCOCK; WENTWORTH

MAFF - ANDREWS; HADDON

TSY - LITTLER; EDWARDS

BUTLER

[ADVANCED AS REQUESTED]

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FM UKREP BRUSSELS 021630Z FEB 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 394 OF 2 FEBRUARY 1982

AND TO IMMEDIATE MANILA (FOR P S)

INFO ROUTINE COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG
ATHENS

INFO SAVING BRUSSELS

JAKARTA TELNO 63 TO FCO: 30 MAY MANDATE

1. I DELIVERED YOUR MESSAGE TO TINDEMANS TODAY. I STRESSED THE IMPORTANCE YOU ATTACH TO MAINTAINING THE MOMENTUM OF THE NEGOTIATION AND TO REACHING A SETTLEMENT BEFORE OR AT THE MARCH EUROPEAN COUNCIL. SINCE THE GUIDELINES APPROACH HAD, CONTRARY TO OUR HOPES, NOT PRODUCED RESULTS, YOU THOUGHT THE TIME HAD COME TO MOVE ON AND DISCUSS A SETTLEMENT ON THE BASIS OF FIGURES.

2. TINDEMANS AGREED ON THE NEED TO LOOK FOR A NEW APPROACH. HOWEVER THE COMMISSION WERE AFRAID THAT ANY FIGURES WOULD QUICKLY BE PUBLISHED. HE AND THORN HAD AGREED NOT TO START ON AN IMMEDIATE ROUND OF CAPITALS BUT RATHER TO TRY TO CREATE THE CONDITIONS IN WHICH A SOLUTION COULD BE REACHED BEFORE OR AT THE EUROPEAN COUNCIL. GENSCHER HAD MADE THE POINT TO HIM ON 23 JANUARY THAT HE WOULD NEED TIME TO RESOLVE THE PROBLEM OF FINANCING; IT WAS FOR THAT REASON THAT HE, TINDEMANS, HAD NOT PRESSED FOR FIGURES TO BE DISCUSSED ON 25 JANUARY (SEE ALSO PARA 3 BELOW). I POINTED OUT THAT WE WERE NOT PROPOSING THAT THE COMMISSION SHOULD TABLE FIGURES IN THE SENSE OF A FORMAL PROPOSAL FOR A SOLUTION BUT RATHER THAT THEY SHOULD PROVIDE THE DATA ON WHICH TO BASE DISCUSSION OF THE RESULTS WHICH COULD BE ACHIEVED BY APPLYING PERCENTAGES TO THE TWO GAPS IDENTIFIED (RECEIPTS/GDP SHARE AND GROSS CONTRIBUTION/GDP SHARE). IN OUR VIEW THE FINAL NEGOTIATION, PARTICULARLY SHOULD CONCENTRATE ON THESE PERCENTAGES.

3. TINDEMANS THEN ASKED HOW WE WOULD REACT IF HE WERE TO PROPOSE A PACKAGE CONTAINING THE FOLLOWING ELEMENTS:

- (A) MEASURES FOR SMALL FARMERS TO THE TUNE OF 120 MECUS IN THE BUDGET;
- (B) A UK BUDGET SOLUTION FOR FOUR YEARS PLUS A REVIEW;
- (C) A FORMULA ON DEGRESSIVITY WHICH WOULD SAY SOMETHING LIKE QUOTE THERE WILL BE AN ELEMENT OF DEGRESSIVITY, BUT IT WILL ONLY COME INTO PLAY WHEN THE UK SITUATION IS IMPROVING UNQUOTE. (HE WAS NOT DRAFTING AND WOULD NOT, I AM SURE, WISH TO BE HELD TO THIS PRECISE FORMULATION).
(IT MAY BE THAT IN PUTTING THIS PROPOSAL HE WAS RESPONDING TO GENSCHER'S WISHES. WE KNOW FROM VARIOUS SOURCES (INCLUDING

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THE GERMANS HERE THAT THEY ARE KEEN TO PURSUE THE GUIDELINES APPROACH. MAURCY AND CHANDERNAGOR ARE SAID TO HAVE AGREED, THOUGH WITHOUT ENTHUSIASM, AT THE RECENT FRANCO/GERMAN CONSULTATION).

6. ON MILK I REFERRED TO THE RELEVANT SENTENCE IN YOUR MESSAGE. ON DURATION I SAID THAT I KNEW FIVE YEARS WAS IMPORTANT FOR YOU AND THE PRIME MINISTER. ON DEGRESSIVITY, AND SPEAKING PURELY PERSONALLY, I SAID THAT YOU MIGHT BE PREPARED TO CONSIDER SUCH A FORMULA SO LONG AS IT WAS CLEAR THAT THE ELEMENT OF DEGRESSIVITY WOULD ONLY COME INTO FORCE AS AND WHEN THE UK'S BUDGET SITUATION IMPROVED, WHICH IT COULD DO FOR A NUMBER OF REASONS. BUT AMBIGUITY WOULD NOT DO: YOU WOULD NOT ACCEPT A FORMULA WHICH WOULD CAUSE THE ROW TO BREAK OUT AGAIN A MONTH LATER WHEN FIGURES CAME TO BE DISCUSSED. AS A GENERAL COMMENT ON HIS PROPOSAL I SUGGESTED THAT PURSUING THE GUIDELINES APPROACH FOR TWO OR THREE MORE WEEKS WOULD RUN THE RISK, IF IT WERE TO FAIL, OF LEAVING TOO LITTLE TIME BEFORE THE EUROPEAN COUNCIL. IT WAS IMPORTANT THAT AT THE FEBRUARY FOREIGN AFFAIRS COUNCIL THE NEGOTIATIONS SHOULD BE SEEN TO BE MOVING AGAIN.

7. THUYSBAERT SAID IT WOULD BE USEFUL TO HAVE SOME IDEA OF THE FIGURES THE UK HAD IN MIND. I SAID WE WOULD PROVIDE HIM WITH A SCHEMA OF THE SORT OF FIGURES WE HOPED THE COMMISSION WOULD PRODUCE. WHEN HE PRESSED ME I EXPLAINED THAT THE UK WOULD NOT BE ABLE TO ACCEPT A SOLUTION WHICH RELIED ONLY ON THE COMMISSION'S OBJECTIVE INDICATOR, SINCE IT, EVEN AT 100 PERCENT REFUND, WOULD NOT DEAL WITH ENOUGH OF THE PROBLEM, AND IT WAS IN ANY CASE VULNERABLE TO FLUCTUATIONS BECAUSE OF THE EFFECT OF EXCHANGE RATE CHANGES ON THE UK'S GDP SHARE. WE WOULD THEREFORE NEED AN IMPROVED FINANCIAL MECHANISM AS WELL. IN EACH CASE THE FINAL NEGOTIATION COULD CONCENTRATE ON THE PERCENTAGE OF THE TWO GAPS TO BE FILLED BY THE TWO MECHANISMS.

8. TINDEMANS EXPRESSED INTEREST. HE THOUGHT THAT DISCUSSION ON THESE LINES COULD HAVE BEEN BEGUN ON 14/15 JANUARY BUT THAT IT MIGHT NOW BE MORE DIFFICULT. I ENCOURAGED HIM AGAIN TO GET THINGS MOVING AT THE FEBRUARY FOREIGN AFFAIRS COUNCIL. HE HIMSELF MADE THE POINT THAT IT WOULD BE ODD IF MINISTERS DID NOT HAVE SOME DISCUSSION: ON THE OTHER HAND HE WAS EVIDENTLY UNSURE ON WHAT BASIS TO DO SO SINCE HE AND THORN WOULD NOT BY THEN HAVE GOT VERY FAR.

9. IN DISCUSSION AFTERWARDS, THUYSBAERT SAID THAT OTHER MEMBER GOVERNMENTS WOULD BE RELUCTANT TO WORK ON THE TWO GAPS. TO DO SO WOULD COME VERY CLOSE TO WORKING ON THE NET CONTRIBUTION. DURIEUX TOOK A SIMILAR, INDEED HARDER, LINE. HE SAID THAT SEVERAL MEMBERS OF THE COMMISSION WERE UNWILLING TO WORK ON THE FINANCIAL MECHANISM AND REGARDED OUR APPROACH AS A DISGUISED ATTEMPT TO GET A DIRECT LIMIT ON OUR NET CONTRIBUTION. THEY AND SEVERAL MEMBER GOVERNMENTS REGARDED SUCH A SYSTEM AS DAMAGING TO THE COMMUNITY. I SAID THERE

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COULD BE NO QUESTION FOR US OF WORKING ONLY ON THE BASIS OF THE COMMISSION'S OBJECTIVE INDICATOR. THE UNDERLYING REASON FOR OPPOSITION TO THE FINANCIAL MECHANISM WAS PROBABLY THAT THEY THOUGHT TOO MUCH MONEY WOULD PASS IF BOTH GAPS WERE COVERED. BUT:

- (A) IT WOULD BE THE PERCENTAGES WHICH WOULD FIX THE SIZE OF THE REFUND;
- (B) THOSE WHO WANTED TO REJECT THE IDEA COULD CALL IT A QUOTE SYSTEM UNQUOTE BUT THOSE SEEKING A COMPROMISE COULD CALL IT A METHOD OF CALCULATION;
- (C) AS A METHOD OF CALCULATION IT WOULD ENSURE THAT (OTHER THINGS BEING EQUAL) OUR REFUND WOULD DECLINE AS THE SIZE OF OUR BUDGET PROBLEM DIMINISHED AND OUR NET CONTRIBUTION WOULD RISE IF THE SIZE OF THE BUDGET INCREASED.

10. SEE M I F T.

FCO ADVANCE TO:-

FCO - HANNAY, DE FONBLANQUE (ECD(1))

CAB - HANCOCK, WENTWORTH

MAFF - ANDREWS, HADDON

TSY - LITTLER, EDWARDS

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FM PARIS 301300Z JAN 82

TO PRIORITY FCO

TELEGRAM NUMBER 116 OF 30 JAN 82

INFO PRIORITY UKREP BRUSSELS BONN ROUTINE BRUSSELS COPENHAGEN
DUBLIN THE HAGUE LUXEMBOURG ROME ATHENS

30 MAY MANDATE: FRENCH GOVERNMENT'S TACTICS

1. SINCE THE BREAKDOWN AT THE INFORMAL FOREIGN MINISTERS MEETING ON THE MANDATE ON 25 JANUARY, THE FRENCH LINE HAS EMERGED AS VERY HARD INDEED ON ALL POINTS. THIS CAN BE SEEN IN THE COMMUNIQUE ISSUED AFTER THE FRENCH COUNCIL OF MINISTERS MEETING ON 27 JANUARY (MY TEL NO 110), IN M CHEYSSON'S STATEMENT AFTER THE FOREIGN MINISTERS MEETING (MY TEL NO 100), AND IN M. CONTOGEOURIS' REPORT ABOUT THE FRENCH ATTITUDE ON FISHERIES (UKREP BRUSSELS TEL NO 334).
2. IT HAS TAKEN THE FRENCH GOVERNMENT A GOOD DEAL OF TIME TO REACH THIS POINT OF HARDNESS. SINCE THE SOCIALIST GOVERNMENT CAME TO POWER FRENCH MINISTERS HAVE BEEN CONDUCTING A PROLONGED FILIBUSTER ON THE MANDATE, FIRST BY IMPOSING A DELAY IN THE DISCUSSIONS, THEN BY DEVELOPING THE "RELANCE" PLOY AND PRETENDING THAT ONLY THE FIRST CHAPTER COUNTED, AND MORE RECENTLY BY FIGHTING UNRELENTINGLY IN EVERY ONE OF THE FINAL ROUNDS OF THE DISCUSSIONS TO HAVE THE BUDGET PROBLEM RELEGATED TO THE LAST PLACE AND TO ENSURE THAT BRITAIN WAS MANOEUVRED INTO THE POSITION OF VETOING "PROGRESS" ON EVERYTHING ELSE IN ORDER TO TRY TO ENFORCE SATISFACTION ON THE BUDGET.
3. THE HARDNESS OF THE FRENCH POSITION CAN ULTIMATELY BE TRACED BACK TO PRESIDENT MITTERRAND'S STATEMENTS DURING HIS ELECTION CAMPAIGN IN WHICH HE ACCUSED PRESIDENT GISCARD OF HAVING MADE TOO MANY CONCESSIONS IN THE 30 MAY MANDATE AGREEMENT. PRESIDENT MITTERRAND INSISTS THAT HE WILL HONOUR ALL HIS CAMPAIGN COMMITMENTS, NEITHER MORE NOR LESS. HE SEEMS TO ATTACH POLITICAL IMPORTANCE TO BEING ABLE TO ARGUE THAT, WHILE IN 1980 PRESIDENT GISCARD CONCEDED THE PRINCIPLE OF BRITAIN'S RIGHT TO COMPENSATION, HE (PRESIDENT MITTERRAND) HAS NOW MANAGED TO ELIMINATE THE CONCEPT THAT BRITAIN HAS ANY INHERENT RIGHT TO COMPENSATION BY MAKING SURE THAT REPAYMENTS ARE DEGRESSIVE, LUMP-SUM AND LIMITED. THIS WOULD HELP HIM TO GET ROUND THE AWKWARD FACT THAT IN TOTAL CASH TERMS HE WILL PROBABLY IN THE END HAVE CONCEDED MORE THAN PRESIDENT GISCARD DID. THE IDEA OF DEGRESSIVITY HAS IN THE END TURNED OUT TO BE HIS ACE. IT LOOKS AS THOUGH THE FRENCH GOVERNMENT FELT SUFFICIENTLY EMBOLDENED TO PLAY THIS CARD ON 25 JANUARY BY THE CALCULATION THAT ON THIS SPECIFIC ISSUE THEY COULD ENGINEER A NINE-TO-ONE LINE-UP AGAINST THE UNITED KINGDOM.

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4. THE PRESENT FRENCH TACTICS ARE SO BOLD AS TO RAISE THE QUESTION OF HOW THE FRENCH GOVERNMENT CAN BELIEVE THAT IT WILL WIN. BUT HERE IN FRANCE IT SEEMS TO BE AN ESTABLISHED POLITICAL PRINCIPLE THAT IT IS MORE IMPORTANT TO BE SEEN TO DO FIERCE BATTLE ON BEHALF OF FRENCH INTERESTS THAN TO ACHIEVE REAL VICTORIES. THEIR NATIONAL HERO IS, AFTER ALL, NAPOLEON, WHO LED THE FLOWER OF THE NATION TO DEATH AND ENDED UP DEFEATED. IN ANY CASE, THE FRENCH GOVERNMENT MAY EXPECT TO KNOCK A FEW CHIPS (IN THE GAMBLING SENSE) OFF BRITAIN IN THE COMBAT. RECENT GROWING AGITATION BY FRENCH FARMERS, AND THE PROSPECT OF MORE TO COME AS PRICE-FIXING APPROACHES, MAY HAVE BEEN ANOTHER FACTOR IN THE FRENCH DECISION TO RAISE THE STAKES. IF THE BATTLE HOTS UP, THE FRENCH GOVERNMENT WILL COLLECT A SEEMING VICTORY IN THE PRICE SETTLEMENT; AND THIS WILL CAMOUFLAGE A LOSS ON THE BIGGER BUDGET FRONT.

5. IT IS DIFFICULT TO JUDGE FROM HERE THE OVERALL BALANCE OF STRENGTH AND VULNERABILITY ON AGRICULTURAL PRICE-FIXING BETWEEN THE DIFFERENT MEMBER STATES. PRESUMABLY THE FRENCH GOVERNMENT HOPES THAT BRITAIN WILL QUAIL AT THE PROSPECT AT ANOTHER COMMUNITY CONFLAGRATION AND THAT SUFFICIENT PRESSURE CAN BE EXERTED, AT THE EUROPEAN COUNCIL AND ELSEWHERE, TO MAKE BRITAIN LOWER ITS DEMANDS. RECENT AGITATION BY BRITISH FARMERS MAY HAVE REINFORCED THIS EXPECTATION. THE ADVERSARY RELATIONSHIP CREATED BY THE FRENCH GOVERNMENT MAKES IT HARD TO FIND FRENCH OFFICIALS PREPARED TO REVEAL THEIR TACTICAL THINKING. I SHOULD BE INTERESTED TO SEE THE ANALYSIS OF FRENCH POLICY PROVIDED BY M. NOTERDAEME (UKREP BRUSSELS TELNO 342) THOUGH I HOPE IT IS NOT SIMPLY THE USUAL BELGIAN SEARCH FOR A SILVER LINING IN EVERY STORM-CLOUD.

6. AGAINST THIS BACKGROUND IT IS DIFFICULT TO SEE ANYTHING AHEAD OVER THE NEXT FEW WEEKS OTHER THAN A STERN TEST OF RESOLUTION AND STRENGTH BETWEEN THE BRITISH AND THE FRENCH GOVERNMENTS. THERE ARE LIMITS TO WHAT CAN BE ACCOMPLISHED IN PARIS BY PERSUASION THOUGH WE SHALL KEEP UP THE PRESSURE. IT IS MORE IMPORTANT TO KEEP REMINDING OTHER GOVERNMENTS OF THE DANGERS OF THE SITUATION WHICH THE FRENCH APPEAR TO BE PRECIPITATING, THE LOGIC AND REASON-ABLENESS OF THE UK POSITION AND THE PRACTICAL NEED FOR A SETTLEMENT. LORD CARRINGTON'S FORMULA ON DEGRESSIVITY, AND THE INDICATIONS THAT BRITAIN MIGHT BE PREPARED TO BE FLEXIBLE ON MILK IN EXCHANGE FOR A BUDGET SETTLEMENT (UKREP TEL NO 286), COULD USEFULLY BE BROUGHT HOME. IT SHOULD ALSO BE POSSIBLE TO SEIZE UPON M CHEYSSON'S ADMISSION ABOUT THE LOGIC OF THE BRITISH POSITION (PARAGRAPH 2 OF MY TEL NO 100) WHILE RIDICULING THE IDEA THAT THE UNITED KINGDOM IS TALKING ABOUT A COMMUNITY WHICH DOES NOT EXIST AND WHICH OTHER MEMBER STATES CANNOT ACCEPT. THE PRESENT NEGOTIATING SITUATION BEARS A NUMBER OF CLOSE PARALLELS WITH THE PERIOD LEADING TO THE 30 MAY AGREEMENT IN 1980, AND THE UNDERLYING STRATEGY DEPLOYED AT THAT TIME STILL SEEMS BROADLY VALID NOW.

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From the Private Secretary

29 January, 1982

1982 Community Budget

The Prime Minister has seen the minute of 28 January by the Lord Privy Seal on the above subject. I also conveyed to the Prime Minister last night the Chancellor's comment, given to me orally by John Kerr, that if the Prime Minister wished to agree with the Lord Privy Seal's advice, the Chancellor would not wish to object.

The Prime Minister agrees with the Lord Privy Seal's conclusion that it would be preferable to pay in full on condition that other EC Member States agree to co-operate in a joint Council action against both the Parliament and the Commission. Mrs Thatcher further agrees that the EC Presidency should be informed of this conclusion and that a statement should be made in the House next week of our intention to implement Option 1 if our conditions have by then been met.

I am sending a copy of this letter to John Kerr (HM Treasury), David Heyhoe (Lord President's Office), Jim Nursaw (Attorney-General's Office), David Willetts (HM Treasury) and Murdo Maclean (Chief Whip's Office).

you see
John Kerr.

S J Gomersall, Esq
Lord Privy Seal's Office



10 DOWNING STREET

Prime Minister

I am afraid that this needs your decision tonight.

2. The Chancellor has said that if you wished to agree with the Lord Privy Seal's advice he would not wish to object. He is impressed by the argument that we stand a better chance of getting the right decision out of the European Court if we act as one with the other members of the Council.

3. Agree with the Lord Privy Seal's recommendation at the end of his letter?
A.T.C. 25.
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Agreed no



Foreign and Commonwealth Office

28 January 1982

Dear Prime Minister,

1982 COMMUNITY BUDGET

As I mentioned in Cabinet this morning, a dispute has arisen between the Council of Ministers and the European Parliament about the 1982 Community Budget, the Parliament having adopted a larger Budget than the one the Council approved and having done so without the Council's agreement. In our view the Parliament's action is illegal. The first payment towards the 1982 Budget is due next week and we have to decide whether to pay on the basis that the Council agreed or on the basis chosen by the Parliament. Despite the doubts about the legality of the Parliament's action, the Commission have decided to implement the Budget on the basis adopted by the Parliament and will take any Member State to court if it does not pay in full. The amount in dispute so far as the United Kingdom is concerned is about £2 1/2 million a month.

Our contention that parts of the budget and the Commission's demand for full payment is illegal is shared by a number of other Member States, but not by all. However, in Brussels this week the Belgian Presidency has proposed a compromise which if agreed would enable the Council to act as one. The components of this compromise are:-

- (i) the Council would jointly take the matter to the European Court to test the legality of the budget as established by the Parliament and the Commission's demand;
- (ii) in the meantime, all Member States would pay in full whether they thought the demands were legal or not, those who thought it illegal formally reserving their rights. (They would, of course, get their money back if the Court decided that the Commission's demands were illegal.);
- (iii) the Council would, at the same time, open discussions to reach a political settlement which, if achieved, would cause the Court actions to lapse.

Prime Minister
10 Downing Street
London SW1

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We are now required to state our position on this proposal by noon tomorrow. Our information is that most and possibly all other Member States will support the Presidency and the United Kingdom's position could well therefore be decisive.

We have to choose whether to go along with the Presidency compromise and pay in full or whether to pay only that part of the Commission's demands which reflect the Budget agreed by the Council and which we consider to be legal.

Option 1: Paying in Full

We cannot pay in full in the usual way. The European Communities Act only permits us to pay out of the Consolidated Fund if there is a Community obligation. We do not consider that, so long as there is legal doubt about a part of the budget, *such an obligation exists, and* therefore such a charge to the Consolidated Fund would not be justified. Therefore in order to be able to pay in full as proposed by the Presidency, we should have to follow an exceptional procedure. This would require:-

- (i) the presentation of a supplementary estimate for 1981/82 and a main estimate for 1982/83 to permit the £2.5m a month to be charged to Votes;
- (ii) while these estimates are being considered by the House, a prior payment out of the Contingency Fund;
- (iii) an oral statement to the House next week explaining why this exceptional procedure was necessary.

The charge to Votes would only be temporary. Once the legal issue had been resolved, we would either get our money back from the Commission or ^{it} would be established that there was a Community obligation in which case the payment would be a proper charge to the Consolidated Fund.

The argument in favour of this course is that it could be decisive in persuading the doubtful Member States to go along with a unanimous court action - indeed we would make it a condition of paying in full that all Member States should associate themselves with this action and that furthermore the action would be taken not only against the Parliament but also against the Commission on the grounds that they had made a demand which was not legally justified. As the European Court is a rather Political body, it is thought more likely that they would find in favour of our point of view if the Council brought the action as one than if we brought an action on our own or in the company of only a few of the other Member States.

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The argument against this course is, obviously, that it would give critics of the Community in the House an opportunity to criticise the Government.

Option II: Abating our Payment

If we decided only to pay that part of the Commission's demand that we considered lawful and a proper charge to the Consolidated Fund, the Commission would almost certainly take us to court and charge us interest on the delayed payment. In order to be able to defend ourselves against the Commission's action in the Court we would need ourselves to institute proceedings against the Commission asserting the invalidity of the Commission's demand for payment. The subsequent court action would cover two separate questions: first whether the Budget as implemented by the Commission was wholly lawful; and second whether the United Kingdom was right to withhold part of its contribution before the Court had given a ruling on the legality of the Commission's demand.

The argument in favour of this course of action is that although other Member States whose attitude to the Parliament's actions is the same as ours have decided not to abate, this course does clearly reflect our view that the request for payment is ill-founded. It would avoid the need for any submission to the House of Commons and would no doubt be regarded as appropriately robust by critics of the Community in this country. We should also be able to control the way in which the case against the Commission was presented to the European Court.

There are two arguments against: the first is that, as mentioned above, although the Attorney General is of the opinion that a case brought by the UK alone would have a fair chance of success, he agrees that there is reason to believe that the Court would be more likely to decide in our favour if we acted in concert with all the other Member States and we see no prospect of securing such unanimity unless we go along with all parts of the Presidency compromise. The second argument is that we would be considered to have prevented a concerted move by the Council to contest the Parliament's attempt to extend its budgetary authority. This could, to some extent at least, influence attitudes in connection with the crucial negotiations now in train and the solution to our Budget problem.

Recommendation

I have discussed this matter at length with the Attorney-General and the Financial Secretary. My conclusion, having examined the arguments is that it would be preferable to pay in full on condition

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that the others agree to co-operate in a joint Council action against both the Parliament and the Commission. I should be grateful for your agreement that I should inform the Presidency of such a decision by noon tomorrow; and that a statement should be made in the House next week of our intention to implement Option I if our conditions have by then been met.

I am sending copies of this minute to the Chancellor of the Exchequer, Leader of the House, Attorney-General, Financial Secretary and Chief Whip.

Yours ever

Humphrey Atkins

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TO IMMEDIATE FCO

TELNO 35 OF 28 JAN

INFO IMMEDIATE TO BONN ROME PARIS COPENHAGEN DUBLIN THE HAGUE
LUXEMBOURG ATHENS AND UKREP BRUSSELS.

YOUR TELNO 17 TO ATHENS OF 27 JANUARY

30 MAY MANDATE

1. TINDEMANS ENTERTAINED THE EC AMBASSADORS TO DINNER LAST NIGHT AND MADE AN IMPASSIONED SPEECH FOR HELP WITH WITH FINDING A NEW APPROACH TO THE GRAVE CRISIS OF THE EUROPEAN COMMUNITY. I TRIED TO DISCOVER FROM HIM AND HIS CHEF DE CABINET, THUYSBAERT, WHETHER THEY HAD ANY NEW IDEAS. THUYSBAERT LAUNCHED INTO HIS FAMILIAR ARGUMENT THAT OUR GUIDELINE APPROACH HAD UNFORTUNATELY BEEN DOOMED TO FAILURE, AND NOW PERHAPS IT WAS TIME TO LOOK AT THE FIGURES. WHEN I ASKED HOW THE FIGURES EXERCISE WITHOUT SOME KIND OF KEY COULD PROVIDE A SOLUTION AND AVOID THE DAMAGING PROCESS OF AN ANNUAL BARGAINING SESSION, HE HAD NO ANSWER. HE THOUGHT WE AND THE FRENCH WERE PLAYING A DANGEROUS GAME, BUT HE DID NOT DISPUTE THAT WE HAD WORKED HARD TO AVOID THE BUDGET PROBLEM RUNNING INTO AGRICULTURAL PRICE FIXING.

2. AS FOR TINDEMANS-THORN TRAVELS ROUND THE CAPITALS, TINDEMANS SAID TO ME THAT HE THOUGHT A PAUSE FOR REFLECTION WAS ESSENTIAL; OTHERWISE THEY WOULD ENCOUNTER THE EXISTING HARD ATTITUDES.

3. IN THE AFTERNOON I CALLED ON THE STATE SECRETARY FOR EUROPEAN AFFAIRS WHO DOUBLES AS MINISTER FOR AGRICULTURE. HE REPRESENTED BELGIUM IN THE FOREIGN AFFAIRS COUNCIL. KEERSMACKER WAS APPROPRIATELY GLOOMY, AND THOUGHT THE LIMITS HAD BEEN REACHED WITH THE PRESENT APPROACH TO THE MANDATE DISCUSSION. HE EXPRESSED THE COMMON FEAR HERE THAT THE BRITISH QUOTE EXCEPTION UNQUOTE WILL START TO UNRAVEL THE BASIS OF COMMUNITY FINANCING BECAUSE OF THE SHADOW OF GERMANY AND THE POORER MEMBERS WHO ALSO WANT SPECIAL TREATMENT. HE THOUGHT THE FIGURES NOW HAD TO BE LOOKED AT.

4. I LEFT A COPY OF YOUR BRIEFING TO PRESS CORRESPONDENTS, AND ALSO RELAYED YOUR CONCERN ABOUT THE HIGH LEVEL OF THE COMMISSION'S PROPOSALS FOR AGRICULTURAL PRICES(YOUR TELNO 76 TO UKREP).

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From the Private Secretary

28 January 1982

30 May Mandate: Message from Chancellor
Schmidt

The Prime Minister has seen the minute of 26 January by the Foreign and Commonwealth Secretary on the above subject and has signed a letter to Chancellor Schmidt based on the draft which was attached to that minute. I enclose the signed copy of the letter and would be grateful if you would arrange for its despatch.

I am sending copies of this letter and the enclosure to John Kerr (HM Treasury) and Robert Lawson (MAFF).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

Subject

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THE PRIME MINISTER

28 January 1982

Dear Chancellor Schmidt

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 17/82

Thank you very much for your message of 22 January about the meeting of Foreign Ministers on the Mandate which took place on 25 January. I fully share your view that it would have been highly desirable for the Foreign Ministers to reach agreement on the four questions remitted to them by the European Council and it is very disappointing that they have failed to do so.

It is particularly regrettable that the main issue on which it was impossible to reach agreement was degressivity. On milk, we recognised that some solution needed to be found to the problem of small producers in the context of controlling the surplus and we were prepared to make a real effort to meet our partners, despite the very weak text on controlling the surplus which was proposed. But on degressivity I frankly do not see how we could accept any text which implied an automatic and arbitrary reduction in our budget refunds regardless of the development of the underlying situation. I can see no justification for a provision of this kind. It is quite unreasonable to identify a problem and then to decide in advance to solve less and less of it. We all hope that the measures which we are proposing to adopt under chapters one and two of the Mandate will lead to a shift in the balance of Community spending which will result in a reduction in our budget problem, and I fully accept that, to the extent that this happens and the problem is reduced, our refunds should also be reduced. This is entirely fair and reasonable. What is not reasonable is that our refunds should decline regardless of the scale of the problem.

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It has been agreed that the President of the Council and the President of the Commission should now seek a solution to this problem. It is important that the impetus of the work on this subject should not be lost, and I hope that you can agree with me in urging them to make rapid progress with their work. I am sure it is in the Community's best interests that there should be the minimum delay in settling these difficult problems.

Yours sincerely,

MARGARET THATCHER

His Excellency Herr Helmut Schmidt

[Mr. Tim Eggar]

an appalling experience as this will be drawn to the attention of the National Coal Board and that all necessary safety measures will be installed in other pits?

Mr. Waddington: I give my hon. Friend that assurance.

Mr. Dennis Canavan (West Stirlingshire): As some of my constituents work at Cardowan and many more of the Cardowan miners are known to me personally, I join my right hon. Friend in extending sympathy to the injured men and their families. I hope that the victims of this tragic incident will make a speedy recovery.

What happened at this pit should be a timely reminder that, despite the great improvements in safety standards in the coal industry over the years, coal mining is still a dangerous, dirty and hazardous job. Conservative Members, who complain constantly that miners are overpaid, should go down pits such as Cardowan, as my right hon. Friend and I did, so that they can see the conditions for themselves. They would then agree with me that the miners are worth every penny that they can get.

Mr. Waddington: It is not appropriate now to make any political points. We are united in our expressions of sympathy and in recognising that mining remains a very dangerous job.

Mr. Dennis Skinner (Bolsover): Is the Under-Secretary of State aware that much concern has been shown by the National Union of Miners and other unions in the mining industry on the general question of the inspectorate? That was reflected in the parliamentary miners group putting down a question about the strength of the inspectorate in the coalfields. Many of us believe that it is below strength and that many additions must be made to bring it up to strength. I hope that the Under-Secretary of State will take the matter on board.

I associate myself with the remarks of my hon. Friend the Member for West Stirlingshire (Mr. Canavan). I remind the House that, despite the reasons put forward by the Minister for keeping it at a certain level, each miner who receives industrial injury benefit this year will lose £14 a week as a result of the Government's decision to stop earnings-related supplement.

Mr. Waddington: I shall deal only with the part of the question that relates to the inspectorate. There was an inspector at the pit when the accident occurred, although he had gone there for another reason. It is worth reminding the House that 11,980 inspections were carried out at coal mines in 1980. In the light of that figure it is difficult to say that there is not an adequate level of inspection. There are 95 mines and quarries inspectors in post. The Health and Safety Executive is trying to recruit additional inspectors up to a total of 102 in 1982. There is no question of its being prevented from carrying out that recruitment programme because of any expenditure restraints.

Foreign Affairs Council

3.47 pm

The Lord Privy Seal (Mr. Humphrey Atkins): With permission, Mr. Speaker, I shall make a statement on the progress of the discussions in the informal meetings of Foreign Ministers of the Community following the last European Council. I shall also make a statement on the Foreign Affairs Council that took place in Brussels yesterday.

On 25 January the Foreign Ministers had a lengthy discussion on the four key issues in the negotiations over the mandate that were remitted to them by the European Council. It was the third such discussion and I regret to say that it was not possible to reach agreement.

The main issue preventing agreement was the view of a number of other member States that the refunds to the United Kingdom should be arbitrarily and automatically reduced over time, regardless of the scale of the problem. We made it clear that we could not accept that. In the longer term we hope that the development of Community policies, including the reform of the common agricultural policy, will lead to a reduction in the size of our budget problem and we fully accept that, as that happens, our refunds should be reduced. What we cannot accept is a reduction totally unrelated to the underlying cause of our budgetary imbalance.

That was not the only difficulty. In addition, one or more of our partners had reserves on other aspects of the matters under discussion. For example, there was disagreement as to whether the duration of our budget refunds should be four or five years, with a review. There are also problems on agriculture where the formula proposed for controlling the milk surplus was very weak, and a number of countries, but not the United Kingdom, have reservations about the proposal that agricultural spending should grow less rapidly than the Community's resources.

It is disappointing that after so many rounds of negotiations we can still not reach agreement on the four key issues identified by the European Council, and therefore on the guidelines that were discussed there. But those are complex questions in which major national interests are involved and we never thought that it would be easy to find solutions that would enable each country to feel that it had a reasonable deal. I welcome the intentions of the President of the Council and the President of the Commission to try to find solutions to those problems. We hope they will be able to do so quickly.

To turn to the Foreign Affairs Council, it was decided to end further sales of food to Poland at specially subsidised prices and to use the funds originally earmarked for such sales for humanitarian aid, including food, through non-governmental organisations. There was a wide measure of support in Council for the proposal that the USSR should be upgraded from the "intermediate" to the "relatively rich" category in the OECD export credit consensus. The matter is to be considered further by the Committee of Permanent Representatives tomorrow, when I hope that it will be agreed that the Community should propose such an upgrading to its OECD partners. The Council also instructed permanent representatives in conjunction with the Commission to study the trade policy measures that the Community might take against Soviet

exports to the Community and the implications of the undertaking by the Ten on 4 January not to undermine measures taken by the United States of America.

The Council considered the problem that has arisen over the adoption of the 1982 budget. In the view of member States, the European Parliament has not acted correctly over the classification of expenditure and the maximum rate of increase. No final decisions were taken, but it appears to be the view of most member States that as well as opening a dialogue with the European Parliament with a view to resolving the problem by mutual agreement they should, as a precautionary measure, place the matter before the European Court to determine the legality of those parts of the budget about which there is doubt.

I am glad to say that the Council agreed that the storage levy and refund scheme applicable to sugar from African, Caribbean and Pacific States should be suspended for three years, to the benefit of the cane refining industry. In those circumstances, I was able to agree to a revised Commission negotiating mandate on the price to be paid for ACP sugar for 1981-82. I hope that that will enable the present disagreement between the Community and the ACP to be resolved.

My hon. and learned Friend the Minister for Trade represented the United Kingdom for discussion by the Council of policy on imports of low-cost textiles. It was agreed that, to allow work to be completed on calculating the global ceilings, decisions on the various outstanding issues, including the terms for Community participation in the new multi-fibre arrangements, should be held over until 11 February, when there will be a further special meeting of the Council.

Mr. Eric S. Heffer (Liverpool, Walton): Is the right hon. Gentleman aware that the Opposition support the Government in all their efforts to ensure that Britain's contribution is fair and equitable, and also on the stand that they appear to be making? I say "appear", because the right hon. Gentleman's statement is by no means as forthright as that made by the Foreign Secretary, which was reported in *The Times* on 26 January. According to that report, he referred to the Community's agricultural prices and said:

"I do not see anything can be done until we have a solution."

What, precisely, does that mean? I trust that the Government intend to adopt that stance. Too often we hear tough statements from the Government, only to discover that they mean very little. Ultimately, there have been compromises which, in the long run have not been satisfactory to the British people and which have added to their burdens.

The Foreign Secretary has not been as forthright this afternoon in the other place as he was reported as being in *The Times*. What precisely do the Government mean by the statement? Will they make a stand and ensure that no agreement is reached on agricultural prices—which could mean an extra 10.5 per cent. for the British people—or on other matters until a solution has been found to the problem? For a long time we have staggered from one crisis to another. The British public are pretty fed up with the farcical trips made to Brussels to try to solve the problem. That problem has never been solved satisfactorily.

If the Government are serious, will they do anything about VAT payments? Have they considered other action,

such as withholding Customs payments? That is pretty drastic, but we must know whether the Government are serious. The House and the country want a clear statement from the Government that this time they mean what they say and will not agree to anything until they have obtained a solution that is satisfactory to the British people.

Mr. Atkins: I thank the hon. Gentleman for his support of our position. It was unexpected, but most agreeable.

The hon. Gentleman asked me about what my right hon. and noble Friend the Foreign Secretary had said about agriculture. The position is simple. The mandate agreed by the Heads of Government on 30 May linked three areas in which progress had to be made: non-agricultural expenditure, agricultural policies and the budget. The Heads of Government and all the countries involved agreed that those three had to go forward together. There has been no departure from that. Until we have found solutions for all three, we cannot move on any of them.

The hon. Gentleman said that we had made tough statements, but reached compromises. I remind him of what happened in 1980, when we had discussed our contribution with the Community. In case the hon. Gentleman has forgotten, I remind him that the arrangements that we were eventually able to make resulted in a far better return than anything that his Government negotiated? We are on the same point now, and I have no doubt that we shall achieve what we want.

Several Hon. Members rose—

Mr. Speaker: Order. I propose to allow 20 minutes for questions on the statement, but I remind the House that there is a Ten-Minute Bill to follow and that many hon. Members wish to speak in the debate on employment.

Sir Anthony Meyer (Flint, West): Is my right hon. Friend aware that there will be general support for the Government's stand, that the question of budgetary refunds must receive not an arbitrary, but an organic solution, which is connected with the Community's progress? Does my right hon. Friend agree that the Government's ability to win acceptance for such an approach would be greatly strengthened if other Departments adopted the energetic attitude of the Foreign Office, which seeks to promote common policies within the Community?

Mr. Atkins: The Government seek to improve the way in which the Community works in relation to agricultural and non-agricultural policies, as well as the budget. I am glad that my hon. Friend supports our position. We have consistently argued with our Community partners that to discharge the mandate agreed by all Heads of Government—that unacceptable budgetary situation should not be allowed to recur—we must produce solutions that stop that from happening. A system under which our refunds fall automatically every year—whatever happens to the rest of the Community's budgetary arrangements—will not necessarily prevent unacceptable situations arising. That is why we stood out against the proposal that that should happen. We believe that the Community's policies will change and that it will spend more, for example on the regional and social funds than before. That may help to solve our problem, but until we know that, we cannot agree to what, in Community jargon, is called "degressivity".

Mr. Russell Johnston (Inverness): How helpful has the Commission been on the budget, and to what extent

[*Mr. Russell Johnston*]

does the Government's view differ from that of the Commission? Is the right hon. Gentleman aware that Liberals believe that to link disapproval of general Jaruzelski's regime, martial law and so on with food aid is unconstructive, unhelpful and, almost certainly, ineffective?

Mr. Atkins: The Commission is well seized of our view and seeks to bring forward proposals to deal with the matter, but in the Council we are dealing with the other member States.

I repeat that the Community has decided to end the system of selling food to Poland at a discount, with the Community making up the balance. We have agreed to use the money to send food and other humanitarian aids to the Polish people, not through the military Government, but through non-governmental organisations, such as the Church, the Red Cross, Caritas and so on.

Mr. Jim Spicer (Dorset, West): My right hon. Friend gave us one piece of good news about the ACP sugar agreement, but can he spell out in a little more detail what it will mean for the United Kingdom sugar refining industry and, over the next three years, for Commonwealth sugar producers, who depend so much upon it?

Mr. Atkins: The suspension of the storage levy will make a considerable difference to United Kingdom cane sugar refiners. As my hon. Friend knows, it mainly involves only one firm, employing about 3,000 people. It will help to preserve those jobs.

In the discussions that are to take place I believe that our Commonwealth partners will feel that the offer of an increased price will meet their case.

Mr. Nigel Spearing (Newham, South): Does the Lord Privy Seal recall that about 10 years ago it was said consistently from the Labour Benches that the system of own resources which the EEC is adopting and to which this country would be bound would mean a permanent and continuing deficit on the EEC Budget for Britain, and that his hon. Friends said that the Community would change? Who has been proved correct?

Mr. Atkins: The thrust of our arguments with our Community partners on agricultural policy is to reduce the proportion of Community money spent on agriculture in relation to the Community's resources. That is essential. The Community should devote itself more to matters connected with the social and regional funds—relieving unemployment, helping young people and so on. That is the line that we have pursued. It may not be surprising that there have been objections from basically agricultural countries, but we intend to pursue that line, because we believe that it is right.

Mr. Teddy Taylor (Southend, East): As Britain has already contributed over £3,000 million more to the EEC than we have received—over £1 million a day net—will my right hon. Friend make it clear to the Community that, in the absence of a rebate agreement, we will not and cannot afford to make the massive payments next year? Although in 1980, after the invasion of Afghanistan, our exports of subsidised food to the Soviet Union broke all

previous records, in view of the Polish situation, will our exports of cheap subsidised food to Russia be reduced this year?

Mr. Atkins: That is precisely what we have invited the permanent representatives to study, along with other trade matters concerning Russia. I hope that they will produce a comprehensive list so that we can consider how to handle our future trade with Russia.

I cannot tell my hon. Friend what the current year's contribution to the EEC will be, but our contribution in 1981 works out at not £1 million a day, but about £1 million a week.

Mr. Christopher Brocklebank-Fowler (Norfolk, North-West): I support the Government's firm stand on the Community budget negotiations generally, but can the right hon. Gentleman assure the House that the part of his statement relating to the agricultural budget does not mean that Her Majesty's Government alone among Community Governments favour a reduction of Community support for her own agriculture?

Mr. Atkins: I said that we believe that expenditure in the Community budget on agriculture is too great and should be reduced in certain areas. We have tried to shift the weight of expenditure from being predominantly agricultural to the other areas that I mentioned, as is right. Many of our Community partners agree with that, although those who derive the greatest benefit from the current arrangement are less than enthusiastic.

Mr. Hugh Dykes (Harrow, East): As our budgetary contribution has been only about £1 million a week net, should we not keep the problem in perspective? Given the necessary economic revival in Britain, in a few years' time might the problem not appear far less serious?

Mr. Atkins: That is what we all very much hope. In 1980 my right hon. Friend the Prime Minister negotiated an arrangement to ensure that our contributions were not excessive. The arrangement applied in 1980 and 1981 and can—and will, if necessary—be extended to 1982, but we are seeking a more permanent arrangement to ensure that Britain, which, unhappily, is not the richest member of the Community, is not the largest contributor. We shall continue to seek a more permanent arrangement of fairer contributions.

Mr. K. J. Woolmer (Batley and Morley): In the MFA talks, did the right hon. Gentleman make it clear to the other Ministers that the proposal to base the future growth of imports on 1982 quotas rather than on the existing level of trade would cause substantial further damage to the industries and was unacceptable to both the employers and the trade unions? If the Government intend to withdraw from the MFA in the event of unsatisfactory bilateral negotiations, may we know what the deadline is for the negotiations this year? Will the Minister of State concerned come to the House on 11 February so that we can properly question him?

Mr. Atkins: My hon. and learned Friend the Minister for Trade has consistently made the point about the basis of future growth to our Community colleagues, and will continue to do so. The Commission is under instructions to report back on the bilateral negotiations—which have not yet started—by the beginning of September. For the present discussions, certain global figures have only just been received by the Commission and we are studying

them. They will be considered again at the meeting on 11 February. My hon. and learned Friend has kept the House informed on the progress of the discussions and, as appropriate, he will continue to do so.

Mr. Tim Renton (Mid-Sussex): In view of the disappointing nature of the recent Council of Ministers' meeting, what will break the log-jam and bring about the fundamental reform of the CAP and the long-term review of Britain's budgetary contribution, which many of us who fully support our membership regard as essential.

Mr. Atkins: In the end, I believe that it will be the realisation by our partners that our case is unanswerable.

Mr. David Ennals (Norwich, North): I understand the desirability of food aid to Poland going through non-governmental channels, but does it mean that voluntary organisations such as the Salvation Army and the Ockenden Venture, of which I am chairman, will get additional assistance to perform the important task of helping the Polish people at a time of great difficulty?

Mr. Atkins: We have instructed the Commission to examine the best ways of getting the aid to the Polish people. As I said, a certain amount of money was set aside in the Community originally to subsidise the sale of food to the Polish Government. It is now planned to use it in the way that I have described. I cannot say at present precisely how it will be done, but the Commission is actively seeking the best methods of ensuring that the aid gets to the people who really need it, and not just to the Polish Government. That is the important point.

Mr. Tony Marlow (Northampton, North): Would my right hon. Friend like to take the opportunity to correct his slight slip of the tongue about our contribution to the Community being about £1 million a week? Is he aware that a recent Treasury answer stated that net cash disbursements this year to Brussels would be £500 million a year, which is £10 million a week? Will he tell his Community colleagues that as long as the bulk of Community funds are expended on the CAP neither the House nor the British people find it acceptable to make a significant net contribution to the Community budget?

The Lord Privy Seal: The figure that I gave was correct. Our net contribution after the adjustments that follow the arrangements arrived at by my right hon. Friend the Prime Minister will amount to approximately £55 million for 1981. That is marginally over £1 million a week, but only just.

Mrs. Shirley Williams (Crosby): Does the Lord Privy Seal think that the entry of Mediterranean producers to the Community will provide a chance to change the basis of the common agricultural policy, so that it is more likely that we can control the ultimate budget?

The Lord Privy Seal: Yes, Sir. The arrival of Mediterranean producers inevitably means a change in the way that the common agricultural policy works. That has also been under discussion. Those countries have different problems from those of more temperate producers. As the right hon. Lady knows, we are convinced that far too much of the Community budget is spent on agriculture and not enough on other matters, particularly the social and regional funds of the Community.

Mr. Sydney Chapman (Chipping Barnet): However disappointing the outcome of the meetings on which my

right hon. Friend has reported may have been, will he recognise that there will be wide support for his stance in insisting that the massive budget reductions negotiated by the Prime Minister should not be reduced, at least until the common agricultural policy has been reformed? Given the way in which our trade has increased with other EEC countries in recent years and that our visible balance of trade is now in surplus, and provided that we can get our budget contribution correct, there are wide economic advantages to be had from our belonging to this great home market.

The Lord Privy Seal: About 43 per cent. of our trade is now with our European partners. It is recognised, not only by the Government, but by all the other Heads of Government who were assembled at the European Council meeting on 30 May, that there should be adjustment and reform in three areas of Community activities—the non-agricultural policies, the agriculture policies and the budget. That was agreed by the Heads of Government. What we have been seeking ever since—and are continuing to seek—is the method of implementing that agreement.

Mr. Leslie Spriggs (St. Helens): Will the Lord Privy Seal inform the House, in view of the agreement reached by the Prime Minister on Britain's budgetary contribution to the EEC, what will happen next year, after that agreement ends later this year? What will follow the present agreement between the Prime Minister and the EEC?

The Lord Privy Seal: That is precisely what we are negotiating.

Mr. Kenneth Carlisle (Lincoln): Does my right hon. Friend agree that the satisfactory level of refunds over the past two years resulted from our tenacity over several meetings? Will he therefore reassure the House that this time the Government will show similar tenacity to secure a long-term solution to our contribution problem?

The Lord Privy Seal: I give my hon. Friend that assurance. It takes a long time to reach a solution, and much discussion and patience with our Community partners, which was shown in 1980, and is being shown by Her Majesty's Ministers now.

Mr. James Lamond (Oldham, East): Will that determination to stand resolutely shoulder to shoulder against the Soviet Union and trade with that country extend to expecting the West German Government, the French Government and the other Governments of the EEC, who are scrambling to sign the same sort of agreements, to cancel their agreements to buy many hundreds of millions of pounds' worth of natural gas from the Soviet Union, or, as usual, can we expect self-interest to prevail?

The Lord Privy Seal: I cannot give the hon. Gentleman a categorical answer. We are currently exploring in detail through our permanent representatives in Brussels, the areas where we can act together and persuade, and perhaps be persuaded by our Community partners to join in the kind of action that the hon. Gentleman has described.

Mr. David Myles (Banff): Although, as a farmer, I regret the delay that may be caused to the annual agricultural price-fixing, I congratulate my right hon.

[Mr. David Myles]

Friends on the robust stand that they have taken in defence of the nation's interests. May I urge my right hon. Friend to ensure that in any agreement that is made our agriculture industry is in no way disadvantaged? Our agriculture industry has set an example to the other agriculture industries to such an extent that we are now suffering from surpluses, whereas Poland and the Soviet Union are suffering from dreadful scarcities.

The Lord Privy Seal: I give my hon. Friend the assurance that he seeks. We are seeking to act in defence of the interests of the whole country, including the agriculture industry, which is a much better example of how an agriculture industry should be run than anything east of the Iron Curtain.

Mr. Heffer: I should like to explore a little further the point made in the Lord Privy Seal's statement about Poland. He referred to the undertaking by the Ten "not to undermine measures taken by the United States." Will the right hon. Gentleman confirm that that in no way implies that we are accepting a policy that could undermine detente and peace in Europe? Will he make it clear that the British Government, while taking every sensible step with regard to Poland, will not go as far as anything that could undermine peace?

In answer to a question by his hon. Friend the Member for Mid-Sussex (Mr. Renton) the right hon. Gentleman said that our case was unanswerable. That may be so to us, but it may not be unanswerable for our nine Community partners. If they do not find our case unanswerable, what do we intend to do? Are we serious this time, or will we again end up with a compromise so that we do not reach a permanent solution, which the Prime Minister unfortunately failed to obtain in 1980, despite all the brave words at the time?

The Lord Privy Seal: The hon. Gentleman is making a mistake to attack my right hon. friend the Prime Minister for what she did in 1980. The agreement was of great benefit to this country than anything ever done by the Labour Government. We are determined to reach an agreement with our colleagues. We believe that our case is unanswerable. At any rate, no one has answered it yet. It is not surprising that we are taking a long time. Each country has its own national interests to consider. If we continue to argue our excellent case, eventually—I cannot tell the hon. Gentleman when—our European partners will agree on the justice and logic of our case and come to an agreement with us.

The hon. Gentleman also asked about Poland. As I said in my statement, we are studying the implications of the undertaking by the Ten, which was given at the meeting on 4 January, not to undermine measures taken by the United States. Much careful consideration is required on how we should proceed. However, I can easily give the hon. Gentleman the assurance that it is in our minds that the prior necessity is to preserve the peace of the world.

Local Authority Finance (Education Costs)

4.18 pm

Sir Brandon Rhys-Williams (Kensington): I beg to move,

That leave be given to bring in a Bill to require the Secretary of State to carry out a further review of the reform of local authority finance; to prepare proposals for the introduction of a special rate support grant to bear the full cost to local authorities of providing public education; and to report to Parliament not later than 31st July 1982.

The House has had acrimonious discussions recently on local authority finance. I am seeking leave to introduce a Bill to deal with the cost of education and to ask for a report on that subject before the House rises for the Summer Recess.

Although there is much controversy over local authority finance, there is general agreement on both sides of the House on the need for a major reform of the present rating system. The plain fact is that over the years Parliament has placed burdens on ratepayers that are greater than they can bear. We have recognised that fact in that we agree that we must accept a large part of the cost of local government expenditure as a charge on the national budget.

If we consider services that are analogous to education, we see that the decision has been taken already. I am thinking of the services that we provide to pensioners, particularly the payment of pensions. I am also thinking of the National Health Service. These services are now accepted as proper to be paid for mainly by central Government. But although education has become a national service with, to a great extent, nationally regulated standards, it is still administered locally and the ratepayers contribute a net figure—as I calculate it—of at least £4,000 million to £5,000 million. That is much too heavy a burden to continue to place on the rates. It is an item of expenditure which has to be brought on to central Government resources.

I have already advocated on a number of occasions that the entire cost of education should be taken over by central Government. The Government's recent Green Paper looks at this possibility in annex B. This is the reform that could be implemented most quickly and simply of all the possibilities that are analysed in the Green Paper. It should have the general effect of halving the rates in one single reform. There is much still to be said about the responsibilities of ratepayers in respect of other services, but I hope that I shall have the agreement of the House that the time has come for education to be made a genuinely national service.

If the burden of finding the money for education fell on to income tax instead of on the rates, it could be said that what the ratepayers would gain the income tax payers would lose and that there would be no significant difference. But there would be a significant and worthwhile improvement in the way the burden of the cost of education would be spread. The reform would bring help precisely to those ratepayers who are finding the rates most onerous, that is, those on the lowest incomes.

Inevitably in making a recommendation of this kind one is bound to arouse consideration of the future of education policy. I am not in this Bill seeking to do that. I am not trying with this reform to change the total amount spent on education, only to spread the cost more acceptably.



CONFIDENTIAL

PRIME MINISTER

Community Affairs

You will wish the Lord Privy Seal to report on the outcome of the discussion of the mandate guidelines at the informal meeting of Foreign Ministers on 25th January, and the results of the Foreign Affairs Council on 26th January.

2. Milk was discussed briefly at the beginning of the informal Foreign Ministers' meeting and left unresolved. Most of the day was spent on the Budget chapter and no progress was made, mainly because the other member states insisted on an interpretation of degressivity that was unacceptable to the United Kingdom. M. Tindemans and M. Thorn will now take soundings with the member states to explore the possibilities for a solution. It is likely that the next phase will enter into figures, and virtually certain that it will become entangled with the price fixing negotiations. Meanwhile the rest of the provisional mandate conclusions remain unagreed pending a settlement of the Budget issue.

3. The Foreign Affairs Council reached agreement on an ACP sugar package satisfactory to the United Kingdom; registered the essential concerns of the United Kingdom on textiles but postponed a decision on acceptance of the Multi-Fibre Arrangement protocol and the global ceilings to a special Council on 11th February; and exposed the proposed French internal market measures for additional state aid and discriminatory action on imports to strong criticism from most member states. On the dispute with the Parliament relating to the 1982 Community Budget, the French proposed that all member states should pay their contributions in full and seek to resolve the conflict through a dialogue with the Parliament, but take joint legal action in the European Court meanwhile to protect the Council's position. Member states agreed to reflect on this proposal and inform the Presidency of their final positions by noon on Friday. (So far United Kingdom Ministers, on the advice

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of the Attorney General, have taken the view that our February contribution to the 1982 Budget should be abated by the disputed amounts; the Ministers concerned are meeting on Thursday afternoon to review the situation.)

RA

Robert Armstrong

conqueror

27th January 1982

GRPS 250

UNCLASSIFIED [FRAME ECONOMIC]

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TO IMMEDIATE FCO

TELEGRAM NUMBER 022 OF 27 JANUARY

INFO IMMEDIATE UKREP BRUSSELS

M I P T

30 May Navdate

1. DUTCH FOREIGN MINISTER MAX VAN DER STOEL, SPEAKING TO JOURNALISTS AFTER EEC FOREIGN MINISTERS REACHED DEADLOCK ON BRITAIN'S CONTRIBUTION TO THE COMMUNITY BUDGET, SAID "I WAS ASTONISHED BY THE ATTITUDE ADOPTED BY LORD CARRINGTON", ADDING: "THE BRITISH CONTINUED TO INSIST ON THE JUST-RETURN PRINCIPLE, APPARENTLY FORGETTING THE ADVANTAGES BRITAIN GETS FROM ITS EEC MEMBERSHIP."

MR VAN DER STOEL VOICED THE HOPE THAT THE NEXT EEC SUMMIT WOULD CUT THE GORDIAN KNOT, BUT ADDED THAT THE BRITISH CONTRIBUTION PROBLEM PLACED "A HEAVY MORTGAGE" ON THE COMMUNITY.

HE RECALLED A DUTCH OFFER TO ACCOMMODATE THE BRITISH FOR FOUR YEARS AT AN AMOUNT TO BE ADJUSTED ANNUALLY, AND ADDED: "THIS WAS THE BIG PROBLEM TODAY. THE BRITISH FLATLY REFUSED TO TALK ABOUT ANY DEGRESSIVENESS IN THE AMOUNT, WHICH WAS THE MAIN STUMBLING BLOCK."

COMPROMISE REJECTED

MR VAN DER STOEL SAID HE HAD LITTLE SYMPATHY FOR LORD CARRINGTON'S ARGUMENT THAT BRITAIN WAS ONE OF THE POOREST COMMUNITY MEMBERS AND OUGHT THEREFORE TO RECEIVE COMPENSATION.

"LORD CARRINGTON CONVENIENTLY OVERLOOKED THAT SUCH COMPENSATION WOULD BE VERY MUCH AT THE EXPENSE OF THE OTHER PARTNERS," HE OBSERVED.

THE DUTCH FOREIGN MINISTER SAID HE HAD SUGGESTED A COMPROMISE YESTERDAY TO THE EFFECT THAT THE MINISTERS SHOULD AGREE ON A SUM FOR ONE YEAR, BUT THE BRITISH REFUSED TO ENTERTAIN THIS PROPOSAL.

MR VAN DER STOEL SAID THIS HAD BEEN A DISAPPOINTMENT TO HIM, SINCE HE FELT ONE SHOULD SEARCH FOR AN ALTERNATIVE IF A FOUR-YEAR ARRANGEMENT WAS UNACCEPTABLE.

"IT WAS JUST IMPOSSIBLE TO DISCUSS THINGS," HE SAID.

MANSFIELD

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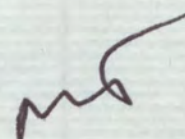
PRIME MINISTER

EC FOREIGN MINISTERS

You were in the Chamber for the later exchanges following the Lord Privy Seal's statement. You may like to see the text attached (which lacks the detail of a last minute addition to paragraph 8 on the sugar price mandate).

Eric Heffer led for the Opposition. In a shambling performance, he surprised the House by opening with a firm expression of support for the Government in every effort to ensure that the UK was treated fairly and equitably, but he went on to suggest that the Lord Privy was being less forthright than Lord Carrington had implied in newspaper reports earlier in the week. He wanted to know whether the Government were ready to take action on withholding VAT or Customs payments.

He was followed by a supportive speech from Sir Anthony Meyer, and some mild questioning by Russell Johnston, at which time I believe you came in.



27 January 1982

(100)

TO BE CHECKED
AGAINST DELIVERY

FOREIGN AFFAIRS COUNCIL, 25/26 JANUARY
STATEMENT BY THE LORD PRIVY SEAL

- Mr Speaker,
1. With permission/I shall take the opportunity to bring the House up to date on the ~~discussions~~ discussions on the 30 May Mandate which have been continuing in ~~informal~~ meetings of Foreign Ministers in fulfilment of the request of the last European Council. I shall also make a statement on the Foreign Affairs Council which took place in Brussels on 25 and 26 January.
 2. On 25 January the Foreign Ministers had a lengthy discussion on the four key issues in the negotiations over the Mandate which were remitted to them by the European Council. This was the third such discussion and I regret to say that it was not possible to reach agreement.
 3. The main issue preventing agreement was the view of a number of other Member States that the refunds to the UK should be arbitrarily and automatically reduced over time, regardless of the scale of the problem. We made it clear that we could not accept this. In the longer term we hope that the development of Community policies including the reform of the CAP, will lead to a reduction in the size of our budget problem and we fully accept that, as this happens, our refunds should be reduced. What we cannot accept is a reduction totally unrelated to the underlying cause of our budgetary imbalance.
 4. This was not the only difficulty. In addition, one or more of our partners had reserves on other aspects of the matters under discussion. For example there was disagreement as to whether the

/duration

duration of our budget refunds should be four or five years, with a review. There are also problems on agriculture where the formula proposed for controlling the milk surplus was very weak, and a number of countries, but not the UK, have reservations about the proposal that agricultural spending should grow less rapidly than own resources.

5. It is disappointing that after so many rounds of negotiations we have still not been able to reach agreement on the four key issues identified by the European Council, and therefore on the guidelines which were discussed there. But these are complex questions in which major national interests are involved and we never thought it would be easy to find solutions that would enable each country to feel that it had a reasonable deal.

6. I welcome the intentions of the President of the Council and the President of the Commission to try to find solutions to these problems. We hope they will be able to do so quickly.

7. To turn to the Foreign Affairs Council, it was decided ^{to end} further sales of food to Poland at specially subsidised prices and to use the funds originally earmarked for such sales for humanitarian aid, including food through non-governmental organisations. There was a wide measure of support in Council for the proposal that the USSR should be upgraded from the "intermediate" to the "relatively rich" category in the OECD export credit consensus. The matter is to be considered further by the Committee of Permanent Representatives tomorrow when I hope that it will be agreed that the Community should propose such an upgrading to its OECD partners. The Council also instructed Permanent Representatives in conjunction

/with

with the Commission to study the trade policy measures which the Community might take against Soviet exports to the Community, and to study the implications of the undertaking by the Ten on 4 January not to undermine measures taken by the United States.

8. The Council considered the problem which has arisen over the adoption of the 1982 budget. In the view of Member States, the European Parliament had not acted correctly over classification of expenditure and the maximum rate of increase. No final decisions were taken, but it appears to be the view of most Member States that, as well as opening a dialogue with the European Parliament with a view to resolving the problem by mutual agreement, they should as a precautionary measure ^{place the matter before the European Court} take legal action to ensure that ~~the problem is resolved.~~

Progress of EEC sugar price mandate

9. My honourable and learned Friend the Minister for Trade represented the UK for discussion by the Council of policy on imports of low-cost textiles. It was agreed that in order to allow work to be completed on calculating the global ceilings, decisions on the various outstanding issues, including the terms for Community participation in the new MFA, should be held over until the 11th of February when there will be a further special meeting of the Council.

10.

I am glad to say that the Council agreed that the storage levy and refund scheme applicable to ACP sugar should be suspended for three years, to the benefit of the cane refining industry. In those circumstances I was able to agree to a revised Commission negotiating mandate on the price to be paid for ACP sugar for 1981/82. This will I hope enable the present disagreement between the Community and the ACP to be resolved.

GRS 46φ

UNCLASSIFIED [FRAME ECONOMIC]

FM PARIS 26161φZ JAN 82

TO PRIORITY FCO

TELEGRAM NUMBER 1φφ OF 26 JANUARY 1982

INFO SAVING BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE,
LUXEMBOURG, ROME, UKREP BRUSSELS, ATHENS.

3φ MAY MANDATE: FOREIGN AFFAIRS COUNCIL

1. THE FRENCH PRESS TODAY CARRIES A NUMBER OF MAINLY DESCRIPTIVE ARTICLES ON THE OUTCOME OF THE MANDATE DISCUSSIONS AT THE FOREIGN AFFAIRS COUNCIL YESTERDAY. SOME OF THE HEADLINES ACCUSE LONDON OF BLOCKING AGREEMENT, BUT MOST OF THE ARTICLES REVEAL TO THE ATTENTIVE READER THAT THE LINE-UP WAS NOT EXCLUSIVELY NINE TO ONE.

2. FIGARO AND LES ECHOS REPORT REMARKS MADE BY M. CHEYSSON AT THE END OF THE MEETING THAT THE BRITISH ARGUMENTS WERE LOGICAL BUT THE JUSTE RETOUR DEMANDED DID NOT EXIST AMONG COMMUNITY PRINCIPLES. BRITAIN WAS TALKING OF A DIFFERENT COMMUNITY, WHICH THE OTHER MEMBER STATES COULD NOT ACCEPT. ON THE MISSION OF THE TWO PRESIDENTS, M. CHEYSSON REPORTEDLY SAID THAT FRANCE DID NOT SEE THE GLIMMERINGS OF AN AGREEMENT AND HENCE DID NOT WANT TO RESUME THE DEBATE FOR SEVERAL MONTHS. THIS WOULD BE BAD FOR THE ATMOSPHERE IN THE COMMUNITY, BUT THE COUNCIL OF MINISTERS COULD NOT AFFORD TO REPEAT THE MISTAKE THEY MADE IN MAY 198φ IN RECOGNISING THAT GREAT BRITAIN HAD A RIGHT TO COMPENSATION.

3. LES ECHOS ARGUES THAT BRITISH DEMANDS WERE TOTALLY UNACCEPTABLE TO MOST OF HER PARTNERS AND PARTICULARLY TO M. CHEYSSON, WHO INSISTED THAT A SETTLEMENT MUST BE LUMP-SUM AND DEGRESSIVE. ACCORDING TO LE MONDE BRITAIN REFUSED AN AGREEMENT ON MILK WHILE FRANCE WAS DETERMINED NOT TO GIVE AN INCH ON THIS ISSUE. LE QUOTIDIEN DE PARIS ARGUES THAT MINISTERS AGREED TO REOPEN THE MANDATE DISCUSSIONS AT AN UNSPECIFIED LATER DATE BUT THAT MINISTERS WOULD BE RELUCTANT TO HAVE IT DISCUSSED AT THE EUROPEAN COUNCIL IN MARCH UNLESS AGREEMENT SEEMED IMMINENT.

4. ALL THE FRENCH NEWSPAPERS NOTE THAT THE FAILURE TO REACH AGREEMENT WILL HAVE INEVITABLE CONSEQUENCES FOR THE AGRICULTURAL PRICE-FIXING THIS YEAR. LES ECHOS SAYS THAT LONDON WOULD VERY PROBABLY USE THE AGRICULTURAL NEGOTIATIONS TO TRY TO OBTAIN THE CHEQUE FROM HER PARTNERS WHICH WAS REFUSED YESTERDAY. FIGARO SAYS THAT IN THE CIRCUMSTANCES IT IS HARD TO SEE HOW LONDON COULD GIVE ANYTHING AWAY ON AGRICULTURE.

5. THIS AFTERNOON'S LE MONDE TAKES UP THE SAME THEME IN A FRONT PAGE EDITORIAL. IT SAYS THAT THERE IS EVERY REASON TO SUPPOSE THAT THE BRITISH WILL BLOCK THE AGRICULTURAL PRICE-FIXING, KNOWING THAT THE FRENCH ARE SENSITIVE ABOUT THAT. LONDON ALREADY FORESEES THAT PARIS WILL LOSE ITS SENSES IN THE EFFORT TO PRODUCE COUNTER-MOVES SUCH AS INCREASED NATIONAL AIDS, AND THIS WILL PREVENT A UNIFIED FRONT FROM BEING MAINTAINED AMONG THE OTHER NINE. EXPERIENCE HAS ALREADY SHOWN THAT UNITY AMONG THE NINE IS DIFFICULT TO ESTABLISH. IN ORDER TO SHOW THAT THIS SCENARIO FOR MISFORTUNE WAS NOT INEVITABLE, THE FRENCH GOVERNMENT NEEDED A TACTICAL AGREEMENT, OR AT LEAST A TRUCE, BETWEEN AGRICULTURAL TRADE UNIONS AND THE GOVERNMENT. ACTIVE, COMPREHENSIVE AND CONTINUED CONCERTATION WAS ALSO NECESSARY BETWEEN PARIS AND HER PARTNERS.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES.

HIBBERT

[REPEATED AS REQUESTED]

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PM/82/7

PRIME MINISTER

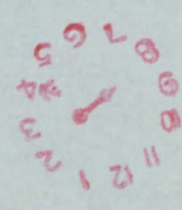
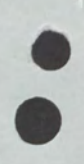
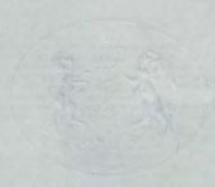
30 May Mandate: Message from Chancellor Schmidt

1. In his message to you of 22 January, Chancellor Schmidt asked you to use your personal influence to ensure that agreement was reached at the meeting of Foreign Ministers which took place yesterday which would enable the conclusions of the European Council to be adopted.

2. In the event, as you know, we got nowhere yesterday. The meeting concentrated on degressivity and we were not able to make any progress on that at all. It was clear that the others wanted me to accept a commitment to arbitrary degressivity even if our problem got worse; and I made it equally clear that I was not going to do so. Tindemans and Thorn will now take soundings of Member Governments to explore the possibilities for a solution. This is likely to mean that the negotiations on figures for the budget settlement will now merge with the negotiations on guidelines.

3. Meanwhile the provisional conclusions on the Mandate remain in limbo. As you remarked on Friday, we should insist on the linkage of all the components of the Mandate. As far as farm prices are concerned, we should argue the merits of each point strongly while of course having no intention of allowing the price review to be settled until the budget is sewn up to our satisfaction. We should take a particularly tough line on any proposals that would increase our unadjusted net contribution.

/4.



27 JAN 1982



4. In replying to Schmidt it would be useful to spell out for him just why we could not accept the kind of text on /
degressivity which was on offer yesterday. I attach a draft message which you might like to send to him.

5. I am copying this minute to the Chancellor of the Exchequer and the Minister of Agriculture.

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(CARRINGTON)

Foreign and Commonwealth Office, SW1

26 January 1982

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FRAME ECONOMIC
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FROM UKREP BRUSSELS 261030Z JAN 82
TO IMMEDIATE FCO

TELEGRAM NUMBER 286 OF 26 JANUARY 1982

INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG ATHENS

INFORMAL MEETING OF FOREIGN MINISTERS 25 JANUARY; 30 MAY MANDATE .

SUMMARY

1. FINAL FAILURE OF THE GUIDELINES EXERCISE. MAJOR COMMUNITY
CRISIS LOOMING.

MILK

2. THE MEETING OPENED WITH A RELATIVELY BRISK DISCUSSION OF MILK. YOU ARGUED THAT THE PARAGRAPH ON THE CO-RESPONSIBILITY LEVY WAS NOT NECESSARY. IF IT WERE TO BE INCLUDED, IT SHOULD NOT FIX THE LEVEL WHICH WAS FOR THE AGRICULTURE COUNCIL. BUT OLESEN REPEATEDLY CALLED ON YOU TO BE AS VIRTUOUS AS HIM AND ACCEPT THE TEXT, AND GENSCHER FIRMLY SLAPPED DOWN AN ATTEMPT BY THORN TO MEET YOU. THE GERMANS WERE DETERMINED TO MAINTAIN THE LEVY AT ITS PRESENT LEVEL. VAN DER STOEL PROPOSED TO ADD "FOR THE TIME BEING". NO-ONE DISSENTED BUT THERE WAS NO SUMMING UP.

3. NO-ONE SEEMED READY TO START A FRESH NEGOTIATION ABOUT SURPLUSES OR SMALL FARMERS IN RESPONSE TO YOUR SUGGESTIONS. SO YOU SAID THAT THE MEETING SHOULD GO ON TO DISCUSS THE BUDGET AND COME BACK TO MILK LATER. OUR ATTITUDE ON MILK WOULD BE INFLUENCED BY THE OUTCOME ON THE BUDGET.

THE BUDGET

4. ON DURATION, YOU SAID THAT 5 YEARS WOULD BE THE RIGHT COMPROMISE. GENSCHER SAID THAT WE SHOULD DISCUSS DURATION AT THE END.

5. THERE THEN BEGAN SEVERAL HOURS OF FRUITLESS DISCUSSION ABOUT DEGRESSIVITY. YOU CIRCULATED THE FOLLOWING SENTENCE WHICH SUGGESTED THAT THERE WOULD BE AN ELEMENT OF DEGRESSIVITY AS COMMUNITY POLICIES DEVELOPED. "THE SOLUTION WILL INVOLVE AN ELEMENT OF DEGRESSIVITY AS THE COMMUNITY ADAPTS ITS POLICIES TO ENSURE THAT THE NEED FOR COMPENSATION IS REDUCED". GENSCHER CIRCULATED A TEXT WHICH WAS AMBIGUOUS, LEAVING OPEN THE POSSIBILITY OF DEGRESSIVITY EVEN IF COMMUNITY POLICIES DID NOT DEVELOP IN

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THE RIGHT WAY. THORN, ABANDONING THE COMMISSION'S APPROACH, PROPOSED THAT WE SHOULD FIX THE REFUND FOR 1982 AND THEN HAVE AN OBJECTIVE INDICATOR FOR THE FOLLOWING YEARS. VAN DER STOEL PROPOSED THAT THERE SHOULD BE AN ELEMENT OF DEGRESSIVITY TAKING INTO ACCOUNT INTER ALIA THE DEVELOPMENT OF COMMUNITY POLICIES. YOU REJECTED ALL THESE IDEAS. THE DISCUSSION WENT ROUND AND ROUND.

6. AFTER A LENGTHY LUNCH DISCUSSING POLAND (LEADING INTO DISCUSSION OF THE MEETING REPORTED IN MY TELNO 281), THERE WAS A LONG PAUSE WHILE TINDEMANS CONSULTED BULATERALLY ABOUT WHAT TO DO. YOU MADE IT CLEAR TO HIM THAT IT WOULD BE URGENTLY NECESSARY TO CARRY THE WORK ON THE BUDGET FORWARD IN FEBRUARY AND MARCH IF THE PRICE FIXING WERE NOT TO BE SERIOUSLY HELD UP. A LITTLE LATER HE SAID TO YOU IN PASSING THAT IT HAD BEEN PUT TO HIM THAT PRICE FIXING WAS A MAJORITY VOTING MATTER. YOU SAID THAT WE COULD NOT ACCEPT THIS.

7. AT THE END OF THE PAUSE TINDEMANS STARTED A TOUR DE TABLE ON THE DUTCH DRAFT ON DEGRESSIVITY. HE AND GENSCHER STRESSED THE SERIOUSNESS OF THE SITUATION. YOU AGREED AND MADE AN ELOQUENT APPEAL TO YOUR COLLEAGUES NOT TO PERSIST IN TAKING THE LINE THAT THE UK COMPENSATION SHOULD DECLINE EVEN IF THE UK PROBLEM GOT WORSE. BUT THE TOUR DE TABLE SHOWED EVERYONE IN FAVOUR OF THE DUTCH TEXT EXCEPT THE FRENCH. CHEYSSON SAID HE COULD NOT ACCEPT A TEXT OF WHICH THE MEANING WAS OBSCURE. HE WOULD HAVE LIKED TO TALK ABOUT FIGURES (THE ONLY REFERENCE TO FIGURES AT THE MEETING).

8. TINDEMANS THEN PROPOSED THAT HE AND PRESIDENT THORN SHOULD TAKE SOUNDING WITH GOVERNMENTS TO SEE WHAT SOLUTIONS COULD BE FOUND AND POSSIBLY REPORT TO THE COUNCIL IN MARCH. YOU THOUGHT THIS WOULD BE A LITTLE LATE. CHEYSSON SAID THAT HE COULD AGREE TO THE SOUNDING, BUT THE MATTER SHOULD NOT COME BACK TO THE COUNCIL UNTIL SOLUTIONS HAD BEEN FOUND. IT WAS DAMAGING TO HAVE INTERMINABLE MEETINGS WITHOUT REACHING AGREEMENT. GENSCHER SAID THAT WE SHOULD EITHER HAVE A MEETING NEXT WEEK OR JUST BEFORE THE EUROPEAN COUNCIL. TINDEMANS SAID THAT THE 2 PRESIDENTS WOULD TAKE SOUNDING AND COME BACK WHEN THEY HAD FOUND SOLUTIONS. YOU SAID THAT THE DISCUSSION WOULD IN ANY CASE HAVE TO GO ON. TINDEMANS SAID THAT SEVERAL MINISTERS HAD TOLD HIM THAT THEY DID NOT WANT TO DISCUSS THE MATTER AGAIN UNTIL SOLUTIONS HAD BEEN FOUND. YOU SAID THAT YOUR COLLEAGUES MUST REFLECT ON THE CONSEQUENCES IF THEY WERE TO REFUSE DISCUSSION. THESE WOULD BE VERY GRAVE INDEED. THERE WAS NO CLEAR SUMMING UP.

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9. TINDEMANS WENT ON TO DISCUSS THE OTHER TEXTS ESTABLISHING THAT THERE WAS NO CHANGE OF POSITIONS ON MEDITERRANEAN AGRICULTURE OR CAP EXPENDITURE. VAN DER STOEL HOWEVER PROPOSED AN AMENDED TEXT TO PARAGRAPH 4 ON THE BUDGET PUTTING IN THE 1 PER CENT CEILING AND LEAVING OUT THE REFERENCE IN THE LAST SENTENCE TO UK COMPENSATION HAVING ONLY A MINOR EFFECT ON THE BURDEN TO BE BORNE BY THE GERMANS. GENSCHER OBJECTED STRONGLY ON THE LATTER POINT, COLOMBO ON THE FORMER. THERE WAS NO CONCLUSION AND THE MEETING WENT BACK TO DISCUSSING POLAND.

10. FULL RECORD, INCLUDING TEXTS, FOLLOWS BY BAG TO ALL ADDRESSEES.

FCO ADVANCE TO:-

FCO - PS/S OF S BRIDGES SPRECKLEY HANNAY DE FONBLANQUE ECD(I)
CAB - HANCOCK ELLIOTT WENTWORTH
MAFF - PS/MINISTER HAYES ANDREWS HADDON
TSY - PS/CHANCELLOR CORIGEMN LITTLER EDWARDS

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FOREIGN AFFAIRS COUNCIL, 25/26 JANUARY 1982

TO BE CHECKED
AGAINST DELIVERY

STATEMENT BY THE LORD PRIVY SEAL

Mr Speaker,

1. With permission/I shall take the opportunity to bring the House up to date on the discussions on the 30 May Mandate which have been continuing in informal meetings of Foreign Ministers in fulfilment of the request of the last European Council. I shall also make a statement on the Foreign Affairs Council which took place in Brussels on 25 and 26 January.
2. On 25 January the Foreign Ministers had a lengthy discussion on the four key issues in the negotiations over the Mandate which were remitted to them by the European Council. This was the third such discussion and I regret to say that it was not possible to reach agreement.
3. The main issue preventing agreement was the view of a number of other Member States that the refunds to the UK should be arbitrarily and automatically reduced over time, regardless of the scale of the problem. We made it clear that we could not accept this. In the longer term we hope that the development of Community policies including the reform of the CAP, will lead to a reduction in the size of our budget problem and we fully accept that, as this happens, our refunds should be reduced. What we cannot accept is a reduction totally unrelated to the underlying cause of our budgetary imbalance.
4. This was not the only difficulty. In addition, one or more of our partners had reserves on other aspects of the matters under discussion. For example there was disagreement as to whether the

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duration of our budget refunds should be four or five years, with a review. There are also problems on agriculture where the formula proposed for controlling the milk surplus was very weak, and a number of countries, but not the UK, have reservations about the proposal that agricultural spending should grow less rapidly than own resources.

5. It is disappointing that after so many rounds of negotiations we have still not been able to reach agreement on the four key issues identified by the European Council, and therefore on the guidelines which were discussed there. But these are complex questions in which major national interests are involved and we never thought it would be easy to find solutions that would enable each country to feel that it had a reasonable deal.

6. I welcome the intentions of the President of the Council and the President of the Commission to try to find solutions to these problems. We hope they will be able to do so quickly.

7. To turn to the Foreign Affairs Council, it was decided ^{to end} further sales of food to Poland at specially subsidised prices and to use the funds originally earmarked for such sales for humanitarian aid, including food through non-governmental organisations. There was a wide measure of support in Council for the proposal that the USSR should be upgraded from the "intermediate" to the "relatively rich" category in the OECD export credit consensus. The matter is to be considered further by the Committee of Permanent Representatives tomorrow when I hope that it will be agreed that the Community should propose such an upgrading to its OECD partners. The Council also instructed Permanent Representatives in conjunction

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with the Commission to study the trade policy measures which the Community might take against Soviet exports to the Community, and to study the implications of the undertaking by the Ten on 4 January not to undermine measures taken by the United States.

8. The Council considered the problem which has arisen over the adoption of the 1982 budget. In the view of Member States, the European Parliament had not acted correctly over classification of expenditure and the maximum rate of increase. No final decisions were taken, but it appears to be the view of most Member States that, as well as opening a dialogue with the European Parliament with a view to resolving the problem by mutual agreement, they should as a precautionary measure take legal action to ensure that the problem is resolved.

9. My honourable and learned Friend the Minister for Trade represented the UK for discussion by the Council of policy on imports of low-cost textiles. It was agreed that in order to allow work to be completed on calculating the global ceilings, decisions on the various outstanding issues, including the terms for Community participation in the new MFA, should be held over until the 11th of February when there will be a further special meeting of the Council.

10.

I am glad to say that the Council agreed that the storage levy and refund scheme applicable to ACP sugar should be suspended for three years, to the benefit of the cane refining industry. In those circumstances I was able to agree to a revised Commission negotiating mandate on the price to be paid for ACP sugar for 1981/82. This will I hope enable the present disagreement between the Community and the ACP to be resolved.

Euro Pol Budget

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FM UKREP BRUSSELS 251952Z JAN 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 283 OF 25 JANUARY

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG ATHENS ROUTINE WASHINGTON.

INFORMAL MEETING OF FOREIGN MINISTERS: BRUSSELS 25 JANUARY:
SECRETARY OF STATE'S PRESS CONFERENCE

1. FOLLOWING IS TEXT OF YOUR STATEMENT AS DELIVERED:

QUOTE

I AM NATURALLY DISAPPOINTED THAT, AFTER THREE LONG DISCUSSIONS BETWEEN FOREIGN MINISTERS, WE HAVE STILL NOT BEEN ABLE TO REACH FINAL AGREEMENT ON THE FOUR POINTS REMITTED TO US BY THE EUROPEAN COUNCIL. BUT THESE ISSUES ARE DIFFICULT AND COMPLEX. THEY AFFECT THE NATURAL INTERESTS OF MEMBER STATES IN DIFFERENT WAYS. IT IS NOT SURPRISING THAT THEY SHOULD TAKE TIME.

2. THERE ARE SERIOUS PROBLEMS OUTSTANDING ON AGRICULTURE. SEVERAL COUNTRIES - NOT INCLUDING THE UNITED KINGDOM - HAVE RESERVATIONS ABOUT THE PROPOSAL FOR A BUDGETARY GUIDELINE FOR CAP EXPENDITURE. ALL SQUARE BRACKETS MAINTAINED. BUT THE PROBLEM CHIEFLY DISCUSSED TODAY WAS MILK. THE FORMULA FOR CONTROLLING THE MILK SURPLUS - WHICH EVERYONE ADMITS TO BE THE NUB OF THE PROBLEM - WAS VERY WEAK. EVEN SO, WE RECOGNISE THAT THE PROBLEM OF SMALL MILK PRODUCERS IS ONE FOR WHICH SOME SOLUTION HAS TO BE FOUND IN THE CONTEXT OF MEASURES TO DEAL WITH THE SURPLUS. WE WERE READY AND WILLING TO WORK FOR A SOLUTION TO THIS COMPLEX PROBLEM. I THEREFORE SUGGESTED THAT WE COME BACK TO MILK AFTER WE HAD DISCUSSED THE BUDGET WHEN WE MIGHT HAVE FOUND THINGS EASIER.

3. ON THE BUDGET A NUMBER OF COUNTRIES HAD GENERAL RESERVES. SO FAR AS SPECIFIC ISSUES ARE CONCERNED, THERE ARE I THINK THREE MAJOR PROBLEMS OUTSTANDING: THE DURATION IS NOT YET AGREED AS BETWEEN FOUR AND FIVE YEARS AND THE REVIEW. THE DUTCH HAVE A RESERVE CONCERNING THE METHOD OF FINANCING THE SOLUTION TO THE BRITISH PROBLEM. BUT THE MAIN ISSUE WHICH TOOK UP MOST TIME TODAY WAS THAT OF DEGRESSIVITY IN THE BUDGET COMPENSATION PAYMENTS.

4. DEGRESSIVITY MAY SOUND A VERY ABSTRACT ISSUE. BUT I CAN ASSURE YOU OF ITS MAJOR PRACTICAL AND POLITICAL SIGNIFICANCE. IT GOES TO THE HEART OF THE NEGOTIATION. UK WILL NOT ACCEPT A FORMULA WHICH WOULD MERELY RESULT IN LESS AND LESS OF A PROBLEM WE HAVE ALL RECOGNISED BEING SOLVED EVERY YEAR. I WILL TRY TO EXPLAIN.

5. THE UK FIRST RAISED IN 1971 THE PROBLEM THAT COMMUNITY BUDGET AS CONSTITUTED WOULD IMPOSE AN UNACCEPTABLE BURDEN ON THE UK, BECAUSE OF DISPROPORTIONATE SHARE OF THE BUDGET THAT WENT ON AGRICULTURE AND THE MODEST SIZE OF UK AGRICULTURE. WE POINTED OUT EVEN THEN THAT THIS NOT TRANSITIONAL BUT STRUCTURAL PROBLEM. ASSURED THAT PROBLEMS WE FORESAW WOULD NOT OCCUR. WE WERE TOLD THE COMMUNITY WOULD ADJUST ITS POLICIES SO AS TO REDUCE PROPORTION OF BUDGET GOING TO AGRICULTURE AND INCREASE THE PROPORTION GOING TO STRUCTURAL POLICIES THAT WOULD BENEFIT THE UK. BUT, IF AN UNACCEPTABLE SITUATION DID ARISE FOR THE UK, THEN THE COMMUNITY WOULD REMEDY IT. THAT WAS THE PLEDGE THAT WAS MADE. UNFORTUNATELY, WE PROVED RIGHT AND PARTNERS WRONG. STRUCTURE OF THE BUDGET DID NOT CHANGE MUCH OVER THE YEARS AND SIZE GREATLY INCREASED. SO THEREFORE DID THE UK'S PROBLEM. THAT LED TO TEMPORARY SOLUTION ON 30 MAY 1980.
6. NOW TALKING ABOUT LONGER TERM SOLUTION. ISSUE WHICH HAS ARISEN ON DEGRESSIVITY IS THIS; SHOULD THE LONGER TERM SOLUTION PROVIDE FOR THE SCALE OF BUDGET REFUNDS TO THE UK TO DECLINE ARBITRARILY OVER A PERIOD OF TIME, QUITE REGARDLESS OF WHETHER THE SCALE OF THE PROBLEM DIMINISHES?
7. ALMOST ALL THE OTHER MEMBER STATES HAVE CONTINUED TO ARGUE FOR ARBITRARY DEGRESSIVITY IN THIS SENSE. BUT I HAVE NOT HEARD ANYONE MAKE A LOGICAL DEFENCE OF THIS. INDEED IT WAS ADMITTED THAT I WAS RIGHT. IT WAS INDEED PROVISIONALLY AGREED LAST WEEK THAT THE REFUNDS SHOULD BE CALCULATED BY REFERENCE TO AN OBJECTIVE INDICATOR WHICH WOULD EFFECTIVELY MEASURE THE SCALE OF THE PROBLEM; AND AVOID THE NEED FOR ANNUAL NEGOTIATION. I HAVE MADE THE POINT TIME AND AGAIN AND GOT NO RATIONAL REPLY; ARBITRARY DEGRESSIVITY IS SOMETHING THAT THE UK COULD NOT POSSIBLY ACCEPT - ANY MORE THAN THE OTHER MEMBER STATES WOULD ACCEPT IT IF THEY WERE IN THE UK'S POSITION.
8. AS I MADE CLEAR IN THE MEETING THERE IS ONE SENSE IN WHICH THE UK COULD ACCEPT DEGRESSIVITY. WE CAN ACCEPT THAT OUR REFUNDS SHOULD DIMINISH IF THE COMMUNITY SUCCEEDS IN DEVELOPING POLICIES WHICH REDUCE OUR UNDERLYING BUDGET PROBLEM. IT IS REASONABLE THAT OUR REFUNDS SHOULD DECLINE OVER TIME IF THE SCALE OF THE UNDERLYING PROBLEM DIMINISHES. WHAT IS NOT REASONABLE IS THAT OUR REFUNDS SHOULD DECLINE ARBITRARILY AND AUTOMATICALLY QUITE REGARDLESS OF THE SCALE OF THE PROBLEM.
9. THE FACT IS THAT, EXCELLENT AS ALL OUR INTENTIONS MAY BE, IT WILL NOT BE EASY TO CORRECT THE UK'S PROBLEMS OVER THE NEXT FEW YEARS BY THE DEVELOPMENT OF COMMUNITY POLICIES ALONE. WE CERTAINLY CANNOT ASSUME THAT THIS WILL TAKE A SHORT TIME.
10. EVERYONE KNOWS THAT THERE IS A DISTINCT DANGER THAT THE UK'S UNDERLYING BUDGETARY POSITION WILL DETERIORATE RATHER THAN IMPROVE. THUS, MOST OF THE SPECIFIC POLICY CHANGES DISCUSSED IN THE RECENT MEETINGS ON THE MANDATE - PARTICULARLY THOSE ON MILK AND MEDITERRANEAN PRODUCTS - WOULD BE LIKELY TO WORSEN THE UK BUDGET PROBLEM, NOT TO ALLEVIATE IT. COULD NOT PERSUADE COLLEAGUES OF THE FAIRNESS OF THE BRITISH CASE.

11. IT WAS AGREED THAT THE PRESIDENT OF THE COUNCIL AND OF THE COMMISSION WILL NOW TAKE SOUNDINGS IN CAPITALS TO SEE IF THEY CAN PROPOSE A SOLUTION TO THE BUDGET PROBLEM. THE TIMING OF THEIR REPORT BACK TO THE COUNCIL WAS LEFT A BIT VAGUE BUT IN MY VIEW IT IS INCONCEIVABLE THAT THIS SUBJECT WILL NOT BE ON THE AGENDA FOR THE NEXT FOREIGN AFFAIRS COUNCIL AT THE END OF FEBRUARY.

12. ONE THING IS SURE. THE PROBLEMS WILL NOT GO AWAY. NOR CAN THEY OR SHOULD THEY BE SWEEPED UNDER THE CARPET. THEY WILL BE SOLVED BECAUSE THEY MUST BE SOLVED. UNQUOTE.

13. THE FOLLOWING POINTS WERE MADE IN ANSWER TO QUESTIONS:-

(A) ASKED WHETHER THE MANDATE ISSUES WOULD BECOME MIXED UP WITH THE 1982 FARM PRICE NEGOTIATIONS, YOU SAID THAT ALL THREE CHAPTERS OF THE MANDATE WERE LINKED AND CHAPTER 2 INCLUDED IMPORTANT AGRICULTURAL ISSUES (VIZ MILK AND BUDGETARY GUIDELINES FOR CAP EXPENDITURE). (TINDEMANS AT HIS PRESIDENCY PRESS CONFERENCE STRUCK A SLIGHTLY DIFFERENT NOTE, CLAIMING THAT MOST MEMBER STATES WISHED TO AVOID MIXING UP THE MANDATE AND PRICE FIXING):

(B) ASKED WHAT INSTRUCTIONS HAD BEEN GIVEN TO THORN AND TINDEMANS FOR THE SOUNDINGS THEY WOULD TAKE DURING THEIR TOUR, YOU SAID THAT IT WAS NOW RATHER LATE FOR THE GUIDELINES AND IT WAS MORE A QUESTION OF FINDING A SOLUTION TO THE BUDGETARY PROBLEM, INCLUDING SCALE. AGRICULTURE MINISTERS WOULD NOW HAVE TO DEAL WITH THE AGRICULTURAL ISSUES. HOWEVER, THE INSTRUCTIONS, LIKE THE TIMING, WERE A LITTLE VAGUE. (TINDEMANS WAS ALSO VAGUE ABOUT THE TERMS OF HIS REMIT. MINISTERS HAD GIVEN THEM CONSIDERABLE ROOM FOR MANOEUVRE; THEY WERE TO EXPLORE ALL ANGLES. THEY HAD NOT BEEN GIVEN A DEADLINE FOR REPORTING BUT WOULD COMPLETE THE MISSION IN TIME FOR MARCH EUROPEAN COUNCIL):

(C) ASKED WHAT HAPPENED TO THE PROGRESS AT THE LAST MEETING AND WHETHER THE COMMUNITY WAS NOW IN A STATE OF PARALYSIS, YOU SAID THAT THERE WAS A RISK OF THINGS BEING FROZEN UNTIL THE MANDATE COULD BE SORTED OUT. HOWEVER, AT OTHER POINTS IN THE PRESS CONFERENCE, YOU STRESSED THAT THERE WOULD BE A SETTLEMENT IN THE END. (TINDEMANS DENIED THAT TODAY'S FAILURE TO AGREE WAS A CRISIS. THE REMIT TO THORN AND HIMSELF MEANT THAT TOO MUCH PESSIMISM WOULD BE MISPLACED. WHILE STATING THAT DEGRESSIVITY HAD BEEN AT THE HEART OF THE DISCUSSIONS, HE IN NO WAY IMPLIED THAT THE UK WAS SOLELY TO BLAME FOR THE IMPASSE.)

FCD ADVANCE TO:-

FCD - PS/S OF S, PS/LPS, PS/PUS, FENN (NEWS DEPT)

MAFF - DAWES (MAFF PRESS OFFICE)

NUMBER 10 - INGHAM (PRESS SECRETARY)

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MESSAGE FROM PRIME ~~MINISTER~~ TO CHANCELLOR SCHMIDT

Thank you very much for your message of 22 January about the meeting of Foreign Ministers on the Mandate which took place ^{on 25 January} yesterday. I fully share your view that it would have been highly desirable for the Foreign Ministers to reach agreement on the four questions remitted to them by the European Council and it is very disappointing that they have failed to do so.

It is particularly regrettable that the main issue on which it was impossible to reach agreement was degressivity. On milk we recognised that some solution needed to be found to the problem of small producers in the context of controlling the surplus and we were prepared to make a real effort to meet our partners, despite the very weak text on controlling the surplus which was proposed. But on degressivity I frankly do not see how we could accept any text which implied an automatic and arbitrary reduction in our budget refunds regardless of the development of the underlying situation. I can see no justification for a provision of this kind. It is quite unreasonable to identify a problem and then to decide in advance to solve less and less of it. We all hope that the measures which we are proposing to adopt under chapters one and two of the Mandate will lead to a shift in the balance of Community spending which will result in a reduction in our budget problem, and I fully accept that, to the extent that this happens and the problem is reduced, our refunds should also be reduced. This is entirely fair and reasonable. What is not reasonable is that our refunds should decline regardless of the scale of the problem.

It has been agreed that the President of the Council and the President of the Commission should now seek a solution to this problem. It is important that the impetus of the work on this subject should not be lost, and I hope that you can agree with me in urging them to make rapid progress with their work. I am sure it is in the Community's

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best interests that there should be the minimum delay in settling these difficult problems.

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Scanda

25 January 1982

30 May Mandate: Message from Chancellor
Schmidt

I sent to Brian Fall on Friday evening the text of a message from Chancellor Schmidt to the Prime Minister.

I should be grateful if you could let me have in due course a draft reply for signature by the Prime Minister. This will clearly have to take account of the current meeting of EC Foreign Ministers in Brussels.

AJC

Francis Richards, Esq.,
Foreign and Commonwealth Office.

T 13/82

London, 22 January 1982

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND

Prime Minister

ms

I have sent a copy of this to the Foreign Secretary in case you wish to discuss it over the weekend.
2. I suggest that we consider a reply after Sunday's meeting.

Dear Prime Minister

A.S.C. 23/1

I have the honour to transmit to you the enclosed message from Herr Helmut Schmidt, Federal Chancellor of the Federal Republic of Germany, regarding the informal meeting of the Foreign Ministers of the European Community on 25 January in Brussels.

I am, Sir, Prime Minister

yours sincerely

Jürgen Ruhfus
Jürgen Ruhfus

The Rt.Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury
London

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T13/82

SUBJECT

T e l e g r a m m e

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from Herr Helmut Schmidt
Federal Chancellor of the
Federal Republic of Germany

T 13/82

to The Rt.Hon. Margaret Thatcher,MP
Her Majesty's Prime Minister and
First Lord of the Treasury

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T13/82

Dear Prime Minister,

at the European Council in London on 26/27 November 1981 we reached, not least thanks to the intensive efforts you made as Chairman, far-reaching agreement on the questions regarding the mandate. Considering the complex nature of the problems, this was no mean success for the Community. At their two meetings since then our Foreign Ministers have also made good progress towards solving the questions that are still open.

We must now consolidate these achievements by definitively adopting the guidelines relating to the mandate. Otherwise I feel there will be the danger of a serious setback for the process of European unification and the Community's image in the world, and this at a time when the international situation requires more than ever before that we bring the political weight of the Community and its member states fully to bear in East-West relations and also in the Atlantic context.

I therefore hold the view that the Foreign Ministers should do whatever is necessary at their next meeting on 25 January to bring about consensus on the few questions that are still open. Now, two months after the European Council, this is probably our last opportunity to present the guidelines as the conclusions of last November's European Council. We must use this opportunity to show the public with these conclusions, especially at this juncture, that the Community intends and is indeed able to resolve its internal problems.

The actual details of the guidelines should be worked out by the Council in its subsequent deliberations.

I am writing to you because I feel that we must now exercise our personal influence so that the conclusions of the European Council will be adopted. I am sending a similar letter to President Mitterrand.

Yours sincerely,
(sgd.) Helmut Schmidt
Chancellor of the
Federal Republic of Germany

ZETA
MAILPOST

F e r n s c h r e i b e n

von Herrn Helmut Schmidt,
Bundeskanzler der
Bundesrepublik Deutschland

an The Rt.Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury

Sehr geehrte Frau Premierminister,
beim Europäischen Rat am 26., 27. November 1981 in London
haben wir, nicht zuletzt Dank Ihrer intensiven Bemühungen
als Vorsitzende, weitgehendes Einvernehmen über die Fragen
des Mandats erzielt. Angesichts der Komplexität der Probleme
war dies ein nicht gering zu schätzender Erfolg für die Ge-
meinschaft. Auch unsere Aussenminister haben bei den beiden
sich anschließenden Treffen gute Fortschritte bei der Lösung
der noch offenen Fragen erzielt.

Es gilt jetzt, das Erreichte durch endgültige Verabschiedung
der Leitlinien zum Mandat abzusichern. Anderenfalls sehe ich
die Gefahr eines schweren Rückschlages für den Prozess der
europäischen Einigung und das Ansehen der Gemeinschaft in der
Welt, und dies zu einem Zeitpunkt, in dem die internationale
Lage mehr denn je von uns fordert, das politische Gewicht der
Gemeinschaft und ihrer Mitgliedstaaten im Ost-West-Verhältnis,
aber auch im atlantischen Rahmen voll zum Tragen zu bringen.

Ich bin daher der Meinung, daß die Aussenminister bei ihrem
nächsten Treffen am 25. Januar 1982 das Notwendige tun sollten,
um den Konsens in den wenigen noch offenen Fragen herzustellen.
Es besteht jetzt - zwei Monate nach dem Europäischen Rat -
die wohl letzte Möglichkeit, diese Orientierungen als Schluß-
folgerungen des Europäischen Rates vom vergangenen Dezember,
zu präsentieren. Diese Gelegenheit müssen wir nutzen, um gerade
jetzt durch diese Schlußfolgerungen der Öffentlichkeit zu zeigen,

daß die Gemeinschaft ihre inneren Probleme lösen will und lösen kann. Die Ausgestaltung der Leitlinien im Einzelnen sollten wir den anschließenden Beratungen des Rates überlassen.

Ich wende mich an Sie, weil ich meine, daß wir jetzt persönlich auf die Verabschiedung der Schlußfolgerungen des ER hinwirken müssen. Ich habe mich im gleichen Sinne auch an Präsident Mitterrand gewandt.

Mit freundlichen Grüßen
Helmut Schmidt
Bundeskanzler der
Bundesrepublik Deutschland

SUBJECT

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cc: Hunt
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10 DOWNING STREET

From the Private Secretary

22 January 1982

30 MAY MANDATE

An ad hoc meeting of Ministers took place today under the Chairmanship of the Prime Minister. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food were present. The basis for discussion was the minute of 20 January by the Foreign and Commonwealth Secretary and the accompanying note by officials.

In amplification of his minute, the Foreign and Commonwealth Secretary said that so far the atmosphere surrounding the discussion of the Mandate had been quite good. An effort had been made, especially by France, not to raise the temperature of the debate. If the meeting of Community Foreign Ministers on 25 January failed to reach agreement on the guidelines, the risk was that the atmosphere would change radically to one of confrontation. He had just heard that Chancellor Schmidt would be sending a message to the Prime Minister and President Mitterrand stressing the importance of agreement being reached at the meeting. In our attitude to the current text of the guidelines we were rather isolated. If agreement was not reached there would be major differences with our European partners and the United Kingdom would be blamed for these. The ensuing dispute would last for a long time. In the process, our European partners would adopt attitudes towards the UK's budgetary problem which would be difficult for them to change later. A clash was probably inevitable at a later stage since our partners did not appear to have fully recognised the strength of our determination that we should end up by making only a very modest contribution to the Community budget. But the dangers of an extended dispute were particularly serious. Not only would our Community partners be estranged, but attitudes within the United Kingdom towards the Community could also become less favourable. At a time when the Western Alliance was under strain for other reasons, it was desirable to avoid a further dispute with our partners. France had already made it clear that if there was major disagreement at the present stage it would withdraw its support for the present guidelines; that would make the ultimate solution more difficult to obtain. We should lose what we had gained in the present text of the guidelines.

With the objective of avoiding a major disagreement at the present stage, he therefore proposed to work for all the amendments suggested in the note agreed by officials. But if, as was likely,

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agreement on these could not be achieved, the vital requirement would be a satisfactory solution on degressivity; a formula would have to be found which did not involve automatic reduction in the UK's refunds. As regards the duration of the budget settlement, he would prefer 5 to 4 years. As regards milk, we had succeeded in preventing the incorporation in the guidelines of a progressive co-responsibility levy. Unless the guidelines contained some financial provision for small farmers, France would never agree to satisfactory wording on the budget. The present provision of 120 muc was a satisfactory figure from the UK's point of view. In sum, his considered view was that it would be most unwise to provoke a major disagreement on 25 January if we were able to obtain a satisfactory text on degressivity.

The Minister of Agriculture, Fisheries and Food said that in his view, if France was demonstrating enthusiasm to reach agreement, it was doing so only for reasons of self interest. The French Government's negotiating position on agricultural prices was desperately weak. It faced the prospect of serious agricultural disturbances within France and was now publicly committed to arguing for a 16% increase in agricultural prices. This left the United Kingdom in a strong negotiating position. But the present text of the guidelines involved us making specific concessions in return for vague wording on matters of interest to us. The 120 muc provision for small farmers was likely to be negotiated upwards in future years. It breached the principle that there should be no special Community policy for small farmers, a point which we had never before conceded. He doubted whether, if there was no agreement on 25 January, the United Kingdom would lose what was already in the guidelines. Nor did it seem likely that the public reaction in this country to agreement on the guidelines as they stood would be favourable.

The Chancellor of the Exchequer stressed the importance of a satisfactory formula on degressivity. We should not consent to any formula implying an automatic reduction in the UK's refunds. He would prefer the less ambiguous of the two alternative formulae in the note agreed by officials. As to the duration of the budget settlement, he considered the difference between 4 and 5 years relatively unimportant. We could make a concession on this point if other matters were satisfactorily settled. As regards milk, France was seeking to insist on specific concessions while at the same time denying us a specific formula on degressivity. As regards small farmers, it was vital that we should not be committed to a scheme based on exclusive Community financing. If that was not possible to achieve, and if a satisfactory formula on degressivity was not obtainable, then it might be necessary to envisage a rupture in the negotiations.

Following further discussion, the Prime Minister stated that the meeting was agreed on the following points, by which the Foreign and Commonwealth Secretary should be guided at the meeting of Community Foreign Ministers on 25 January.

/ It was essential

It was essential that the following reservations should be inserted as a footnote to paragraph 3 of the draft budget guidelines (Annex B of the note by officials):-

"The United Kingdom delegation states that it accepts this text on the condition that the United Kingdom would not be able to agree to the implementation of the Mandate conclusions on the other subjects unless the application of this method produces an acceptable result for the United Kingdom's budgetary position".

Further to the budget guidelines, it was crucial to obtain a formula on degressivity which made it clear that we were not accepting the possibility of a reduction in the refunds to the UK which was not a consequence of a reduction in the UK's unadjusted net contribution flowing from the adaptation of Community policies.

The duration of the budget settlement should be five years. The Foreign and Commonwealth Secretary would not make any concession on this point without further consultation with the Prime Minister.

As regards the guideline text on milk products the Foreign and Commonwealth Secretary would do his best to achieve the amendments contained in paragraph 6 of the note by officials. But in the last resort he would have discretion not to insist on these amendments if he judged this necessary in order to obtain an acceptable text on degressivity.

I am sending copies of this letter to John Kerr (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food) and to David Wright (Cabinet Office).

E. J. DOUGLAS

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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 TO IMMEDIATE FCO
 TELNO 16 OF 21 JAN 82
 INFO PRIORITY UKREP BRUSSELS
 INFO SAVING OTHER EC POSTS

UKREP BRUSSELS TELNO 166: 30 MAY MANDATE

1. WE HAVE DISCUSSED THE OUTCOME OF THE 14/15 JANUARY MEETING AND THE PROSPECTS FOR THE 25 JANUARY MEETING WITH IANNI AT THE MFA. HE AVERS THAT, THE GAME IS NOW OUT OF OFFICIALS' HANDS. COLOMBO AND BARTOLOMEI (MINISTER FOR AGRICULTURE) BETWEEN THEM WILL TAKE THE FINAL DECISIONS ON WHAT TEXTS THEY CAN ACCEPT AND COLOMBO WILL SHOW THE HAND ONLY ON 25 JANUARY. SPADOLINI, THOUGH KEPT INFORMED BY COLOMBO, HAS NOT BEEN ACTIVELY INVOLVED.

2. OFFICIALS' PRINCIPAL CONCERN IS THE NUMBER OF QUESTIONS LEFT UNANSWERED BY THE PRESENT TEXTS, THE AMBIGUITIES THEREIN, AND THE DIFFICULTIES WHICH IMPLEMENTATION OF THE GUIDELINES WILL INVOLVE. IANNI ACKNOWLEDGED THAT THE FORMULA ON MEDITERRANEAN PRODUCTS WAS NOW SATISFACTORY FOR ITALY, THAT THE TEXT ON AGRICULTURAL SPENDING WAS WEARABLE, IF STILL AMBIGUOUS, AND THAT THE TEXT ON MILK WAS LIKEWISE WEARABLE, BUT SIMPLY PUT OFF TACKLING THE ROOT OF THE PROBLEM. AS FOR THE BUDGET, HE DID NOT BELIEVE THAT WE WOULD GET MORE THAN 4 YEARS' DURATION, BUT WAS MORE AGNOSTIC THAN BEFORE ON DEGRESSIVITY. BUT HE STRESSED THE ITALIAN VIEW THAT, WITHOUT A RECOGNITION THAT THE 1% CEILING WOULD HAVE TO BE RAISED, THERE WAS NO CHANCE OF THE DEVELOPMENT OF NON-AGRICULTURAL POLICIES GROWING SUFFICIENTLY TO SOLVE THE UK BUDGET IMBALANCE AND THAT THEREFORE DEGRESSIVITY AS INTERPRETED BY US (IE RELATED TO THE GROWTH OF OTHER POLICIES) MEANT A PERMANENT MECHANISM. THIS ITALY COULD NOT ACCEPT NOR DID HE THINK THAT THE ITALIANS WOULD AGREE TO A POLITICAL KEY, BECAUSE IN PRACTICE THIS MEANT NATIONAL CONTRIBUTIONS OF FRESH MONEY WHICH ITALY DID NOT HAVE.

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PRIME MINISTER

Ministerial Meeting: 30 May Mandate

I am sorry there is so much paper here, but you have already read much of it.

The meeting would be simplified if you could consider overnight the reservation contained in Mr Hancock's minute attached which was drafted following your talk with the Foreign and Commonwealth Secretary this morning.

If you agree with the proposed reservation, I think it would be helpful if I circulated the text of it in advance of your meeting. Agree?

The meeting could then concentrate on the issues described in the Cabinet Office's brief which is also attached.

A.J.C.

21 January, 1982



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MR COLES

30 MAY MANDATE

1. At the end of the Prime Minister's talk with the Foreign Secretary this morning, she asked to be reminded of the conclusions of the European Council on 26/27 November and the terms in which she reported them to the House of Commons. She also asked to see a possible draft of a note of reservation by the United Kingdom on the text of the guidelines, designed to prevent accusations of bad faith if the United Kingdom were obliged to stop the implementation of the agreement on other matters - and in particular on milk - because the others would not agree to an acceptable solution to our budget problem.

Conclusions of the European Council on 26/27 November

2. The conclusions were circulated to the Council in the form of a note by the Secretary General, dated 30 November, a copy of which is attached. In paragraph 2 it is stated that any concession made on any particular point was provisional until agreement had been reached on the whole text; and in paragraph 5, the Prime Minister is reported as saying that any agreement on any point is subject to agreement on the whole.

3. In reporting the outcome to the House of Commons on 30 November, the Prime Minister said that "it is understood that agreement on each issue covered by the Mandate is, and will be, conditional on an overall solution". Later, in reply to Mr Foot, she said: "the interests of member states are different - on the budgetary chapter, on the CAP and on other policies. That is why we all said that we would not agree to any particular reform until we had an overall reform, so that each and every country felt it had a reasonable deal from all the changes in the Mandate". (Extract from Hansard attached)

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UK reservation

4. I suggest that the UK reservation might be expressed as follows.

A footnote should be registered at the end of the text of paragraph 3 of the budget guidelines - ie, immediately after the reference to an objective indicator. The footnote itself would read as follows:-

"The United Kingdom delegation states that it accepts this text on the ^{conclusion} ~~understanding~~ that the United Kingdom would not be able to agree to the implementation of the Mandate conclusions on ^{the} other subjects unless the application of this method produces an acceptable result for the United Kingdom's budgetary position."

5. It is, I suggest, significant that the Secretary General's note refers to the concessions being provisional until agreement had been reached on the "whole text". My impression is that other delegations have been working on the assumption that, once the text of the guidelines on milk, Mediterranean agriculture, CAP costs and the budget had been agreed (and three remaining reservations on Chapter II of the draft conclusions withdrawn) the complete text of the European Council's conclusions on the Mandate would then be considered agreed and the Mandate exercise brought to an end. For that reason, I thought it advisable to draft the note of reservation as a commentary on the implementation of the Mandate conclusions and not as an attempt to leave the status of those conclusions themselves in a state of uncertainty. Even so, the footnote would, I suggest, enable the Government to say that it had agreed to the Mandate conclusions as a whole subject to a crucial reservation - namely that drafted above.

D.H.

D J S HANCOCK

21 January 1982

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REPORT

from: the Secretary-General

to : Council

Subject: Mandate of 30 May

- State of negotiations following the meeting of the European Council in London 26/27 November 1981

1. During its session on 27 November the European Council considered both the draft conclusions contained in 10910/81 and the result of the work of the drafting group (doc. dated 27 November 1981).
2. The European Council agreed that the fulfilment of the 30 May Mandate required agreement on all three chapters: development of policies other than the CAP, the Common Agricultural Policy and budgetary problems. Any concession made on any particular point was therefore provisional until agreement had been reached on the whole text.
3. On some points the European Council reached provisional agreement. The provisionally agreed texts are incorporated in the draft conclusions in Annex A and marked with a line in the margin. On other points, where agreement was not reached, a general concensus emerged on the text to be used as the basis and the outstanding points to be settled in further negotiations. This text is included

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in the draft conclusions in Annex A with indications on which points disagreement still persists. On some points the question was left open, but some indications were given on which questions had to be settled before final agreement could be reached.

4. The President in summing up the European Council's discussion of the economic and social situation in the Community (Annex B) noted that this was also relevant to paragraphs 1 to 7 of Chapter I of Annex A.

5. The President of the European Council concluded at the end of the discussion that:

(a) The European Council had a thorough discussion on all three chapters of the Mandate - development of Community policies, the CAP and the structure of the budget - and reached a considerable measure of understanding. Any agreement on any point is subject to agreement on the whole.

(b) Four main issues remain unresolved:

- the milk problem:
- guidelines on agricultural expenditure
- Mediterranean agriculture
- the budget problem.

(c) The European Council agreed that Foreign Ministers would meet informally, if possible before Christmas, but if not, in January. They will consider these issues and make recommendations to the Heads of Government, which the latter hope to be able to approve without a further meeting (written procedure).

(d) Once a political solution has been found, the Council will adopt the necessary formal decisions.

(e) Attendance at the informal meeting will be restricted to Foreign Minister plus two others.

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European Council (London Meeting)

3.32 pm

The Prime Minister Mrs. Margaret Thatcher: With permission, Mr. Speaker, I will make a statement on the meeting of the European Council under my chairmanship at Lancaster House on 26 and 27 November and which my noble Friend the Secretary of State for Foreign and Commonwealth Affairs also attended. I have arranged for copies of the agreed statements issued by the Council to be placed in the Library of the House.

As chairman, I welcomed Mr. Papandreou, the Greek Prime Minister, who made a statement about the economic problems of Greece and his Government's attitude towards the Community. Dr. Fitzgerald was also attending the European Council for the first time as Taoiseach.

We spent a lot of time discussing all the matters which arise under the mandate given to the Commission on 30 May 1980. As the House is aware, these cover, first, the reform of the common agricultural policy; secondly, the development of other Community policies, in particular economic, regional and social policies; and, thirdly, the problem of the Community budget. A thorough examination highlighted four matters which will require further work. These are, first, the problems arising from the Community's milk surplus; secondly, the way to deal with Mediterranean agriculture; thirdly, the share of agricultural expenditure within the Community budget; and, fourthly, how to adjust the budget so that no member State is put into an unacceptable financial situation. Foreign Ministers will have a special meeting within the next few weeks to carry forward the work and submit recommendations to Heads of Government.

We hope that in this way it will be possible to reach an understanding on these matters before the next meeting of the European Council at the end of March. It is understood that agreement on each issue covered by the mandate is, and will be, conditional on an overall solution. There are important issues at stake for all member States and not least for the United Kingdom. It will take time and further effort to get a satisfactory answer.

The European Council also discussed the economic and social situation and the difficulties facing the Community at a time of continuing world recession. There was general endorsement for the views put forward by the Commission, in particular that the objectives of fighting inflation and unemployment needed determined policies to bring public deficits under control, to keep production, distribution and unit labour costs in check. Such policies would encourage interest rates to ease and would help productive investment to expand. The Council was agreed that special attention must be given to youth unemployment, which is of great concern to us all. We were agreed on the need for more training for young people.

Chancellor Schmidt and Signor Spadolini drew the attention of Heads of State and Government to the ideas put forward by their Governments for a "European Act." Foreign Ministers will now examine the ideas and report back to a future European Council. In this context, the Council also noted the London report on political co-operation issued by Foreign Ministers on 13 October. This embodies a stronger political commitment to co-operation on foreign affairs and strengthens the machinery for political co-operation.

Heads of State and Government also discussed a number of other important issues, including East-West relations and the Middle East. The Federal Chancellor told us about his important conversations with President Brezhnev on the occasion of the latter's recent visit to Bonn. We all agreed on the importance of keeping open the channels of communication between East and West. We welcomed the commitment of the United States, announced in President Reagan's speech of 18 November, to achieve major mutual reductions in nuclear and conventional weapons systems.

As the agreed statements make clear, the Council also restated in strong terms its concern at the continuing Soviet occupation of Afghanistan.

My noble Friend gave an account of the visit of the Polish Foreign Minister to London. The Council confirmed its determination to continue to do what it could to support Polish efforts towards the recovery of the Polish economy.

Finally, the European Council reaffirmed its commitment to complete the enlargement negotiations with Spain and Portugal. I am glad that these have advanced during recent months.

It was disappointing that we were not able to make more specific progress on the major issues on the mandate. This was, none the less, a meeting which helped to lay the basis for the difficult and far-reaching decisions which have to be taken soon. We intend to make sure that those decisions, which will affect the future of the Community for years ahead, safeguard the interests of the United Kingdom.

Mr. Michael Foot (Ebbw Vale): I thank the right hon. Lady for making a statement. I do not wish to cover all of the matters that she has raised. However, does she not think that it would have been better to have been completely frank with the House and with the country and to have acknowledged that no progress has been made towards achieving the objectives that she has set and that the House of Commons, on a number of occasions, has laid down in specific terms?

The right hon. Lady's statement has underlined that each country defends its own self-interest, that once again Britain has failed to get any lasting improvement on the financing of the CAP, on the budget, and on the transfer of resources from rich to poor countries, and that even when we have the Presidency of the Council we are unable to make any progress. That is surely what the right hon. Lady should acknowledge.

Is there any prospect whatever of fresh budget arrangements which will guarantee that, over a reasonable period, Britain is not a net contributor, and that there will be a real transfer of resources from rich to poor countries? Will the right hon. Lady at last take account of the resolutions on this subject that have been passed by the House?

Does the right hon. Lady really believe that the countries with vested interests will ever agree to the reform of the CAP and that she can properly reform it from within the Community? Will she give an undertaking that, unless the CAP is reformed, Britain will block any fresh agreement on agricultural price fixing this coming spring?

I come to what the right hon. Lady said about unemployment. Surely it is a most pitiful result that a meeting of this character should produce so few results on this paramount subject. Was anything agreed about

[Mr. Michael Foot]

dealing with mass unemployment? Why did the British Government refuse to support the initiatives and proposals that were made by President Mitterand on this subject and the programme of expansion on which he is seeking to get some other countries to agree? Why is our country one of those which is holding back?

Has the right hon. Lady had a chance to read the comments of her right hon. Friend the Member for Sidcup (Mr. Heath) on this summit? Does she think that the tactics that she employed in Dublin have had any effects in producing the negative results here? We in the House of Commons would be glad to support her if she would stand up for the resolutions that have been passed here, but so far she has failed to do so at any of these meetings.

Finally, I should like to question the right hon. Lady about the report that she says she was glad to receive from the Federal German Chancellor on his discussions with President Brezhnev and others. We are also glad to hear the reports. Does she agree with the statement made by the Federal Chancellor that he is quite convinced that the Soviet Government come to the negotiations eager to secure settlements? When we brought back that same information from Moscow, the Foreign and Commonwealth Office did not seem to understand. Now that the Federal Chancellor has said it to her perhaps the Government will be ready to acknowledge it. The Opposition want to see those negotiations succeed. We shall do everything in our power to help them to succeed.

The Prime Minister: At the summit we discussed the whole range of Community policies. Indeed, I have never heard so many matters, ranging across Community policies, discussed at any summit. They concerned each and every nation represented there, and, naturally every nation fights its own corner. That is not surprising—we fight ours. On the whole, we have fought ours rather more vigorously than the right hon. Gentleman's Government did. We all have interests in common, and I believe that it is in our common interest that the Community should continue. Within that common interest, we also wish to secure the very best possible arrangements for Britain.

There are very difficult decisions to take with regard to the common agricultural policy. The existing policy suits a number of member States, but some find it inequitable and not at all sensible. We must continue to try to achieve a policy which treats their requirements reasonably and which, in the end, is much more sensible—towards a prudent pricing policy, prices which are nearer world prices, which produce fewer surpluses and, therefore, take a much smaller proportion of the agriculture budget. It will take time but we must continue to try to achieve that policy.

Almost every member nation is concerned because it has an unemployment problem. The right hon. Gentleman referred to French expansion, and I remind him of two things. First, even when France has expanded her deficit it is still a smaller proportion of gross domestic product than Britain's. I further remind him that, even with a very much smaller deficit than Britain presently has, France had to cut her capital expenditure programme by the equivalent of about £1.3 billion.

As to the suggestion that we did not get much further because of the attitude taken in Dublin, I remind the right hon. Gentleman that, had we been left with the budget

arrangements with which his Government left us we should this year be paying about £1.4 billion to the Community budget. We got it well down in our budget negotiations and this year it appears that we shall be paying about £55 million. That is the measure of what the Conservative Government have done for Britain.

Mr. Foot: The criticisms of the Prime Minister's conduct in Dublin came primarily from her right hon. Friend the Member for Sidcup and it was in that context that I put the criticism to the right hon. Lady. I hope that she will read the article and see whether she agrees with it.

With regard to the expansion programme, the figures of the French budget and its borrowing requirements, the French Government are proposing an expansion programme such as some of the Prime Minister's right hon. Friends might wish to support. The Opposition want to know when the British Government will be prepared to consult with other countries—within Europe or out of it—on a programme of expansion. If the Prime Minister will not agree with the French Government on such proposals in the European Council, will she have bilateral discussions with President Mitterand to see whether we can have a common programme to tackle unemployment instead of the British Government holding back?

The Prime Minister says that she still has hopes of reforming the common agricultural policy. Can she give us a date by which she thinks any real reform may be achieved?

The Prime Minister: No, because this is part of the continuing work on the mandate referred to the Foreign Ministers. There are serious and difficult problems. Yes, the interests of member States are different—on the budgetary chapter, on the CAP and on other policies. That is why we all said that we would not agree to any particular reform until we had an overall reform, so that each and every country felt it had a reasonable deal from all the changes in the mandate.

With regard to French expansion, if there is a very low deficit as a proportion of the GDP, there is obviously more scope for increasing borrowing and lending and therefore one starts from a much higher deficit. Even with French expansion, their deficit is lower than Britain's. Even on the programme of expansion that the French Government have announced, they have had to retreat from some of the additional announced expenditure on capital and to take back about £1.2 billion or £1.3 billion.

Several Hon. Members rose—

Mr. Speaker: Order. I propose to allow 20 minutes for questions to the Prime Minister. It should be possible to accommodate everyone in that time.

Mr. David Steel (Roxburgh, Selkirk and Peebles): The Prime Minister did not tell hon. Members in the statement what her attitude was to the proposals advanced by Herr Gensher and Signor Colombo for greater political co-operation in Europe. Is this not a timely proposal at a time of great European interest in the disarmament issue? Would it not have been opportune, during the British Presidency, to make moves towards joining the European monetary system? Will the Prime Minister respond to the specific assertion of her predecessor, who wrote in *The Times* this morning:

"The other members of the Community were not prepared to reach agreement on matters affecting British interests directly because of the way they had been treated at the Dublin Summit on other topics."

The Prime Minister: The Dublin and Luxembourg summits produced the best budgetary arrangements for the United Kingdom that any Government have been able to achieve since Britain entered the Community. I am sorry that Liberal Members do not like the fact that we got such a good deal. Clearly they could never have got it and they are jealous that someone else did.

Britain's attitude towards the German and Italian proposals must be considered very carefully. They propose new arrangements for political co-operation—even on security matters—and that obviously does not suit all members of the Community, because at least one of them is neutral. They also propose some new councils—one for judicial and one for cultural matters—and I have not the slightest shadow of doubt that some will adopt different approaches to the prospect of having new councils. They also propose some increased powers for the European Parliament. I imagine that varying views will be taken, even in this House, about some of those things, and everything must be considered carefully by the Foreign Ministers before the matter returns to the European Council. I have not the slightest shadow of doubt that the House, in specialist Committees and on the Floor, will also wish to consider those matters carefully.

We were asked if we would join the EMS. However, the question of the EMS comes up at the next Council, because it will then be three years since it was started. Britain's exchange rate has fluctuated considerably because the United Kingdom has a petro-currency. In that respect we differ from other members of the Community. We should have to consider that very carefully if there were any question of our going into the EMS.

Mr. Geoffrey Rippon (Hexham): I congratulate the Prime Minister on the patience and determination with which she has sought a restructuring of the community budget and policies to the mutual advantage of all Community members. However, does she agree that the danger of summit conferences is that they raise expectations too high and that it would usually be better for detailed negotiations to be conducted by the Council of Ministers, as provided in the Treaty?

Will the Prime Minister be a little more optimistic about the prospects of Britain's joining the European monetary system? We are always told that we cannot join when the pound is too weak and that we do not need to join when the pound is too strong.

Will the Prime Minister also say whether any decision was taken about the establishment of the European Foundation in Paris, which was agreed by the Council in 1977 and 1978? It would be comforting if some of the Council's decisions could be implemented by those who are answerable for them.

The Prime Minister: The European Foundation in Paris was not discussed during the London meeting. We had many other things to discuss but I have taken note of my right hon. and learned Friend's point.

With regard to the EMS, Britain's exchange rate against the Deutschmark and the dollar has varied considerably recently. One thing we should have to decide would be the rates at which Britain would go in. In view of the fluctuations we have recently had, that would be

extremely difficult. We shall be discussing the whole question of the EMS. Britain belongs, as my right hon. Friend knows, to the support system but not to the exchange rate system. The future of the EMS will come up for discussion at the next Council.

I entirely agree with what my right hon. and learned Friend said about detailed mandates. It is not right for Heads of State and Government to be discussing detailed matters about how much manioc we should import, about structural surpluses, about import and export policy and agriculture, details of wine, olive oil, and so on. I should have been extremely surprised had we been able to come to specific conclusions on these matters. I agree that it is much better if these matters can first be taken much further in the specialised Councils.

Mr. John Roper (Farnworth): Will the Prime Minister accept that she has the support of the Social Democrats in the firm decision she has taken about the mandate of 30 May, although we are concerned that there was not better preparation in the matter? Will she also accept that we believe it is right to go for a long-term, comprehensive solution, which will take into account the interests of all member States, as the only way to achieve a satisfactory solution of Britain's special problems?

The Prime Minister: I agree with the hon. Gentleman. We were trying to get a longer term solution last time. We thought that when the question of the budget came up again this time we would probably be nearer to the 1 per cent. VAT ceiling, and that therefore all member States would have an interest in securing a fundamental restructuring of the budget. We are not at the 1 per cent. VAT ceiling, and considerable further moneys have come in from co-responsibility levies. Therefore, there is no dire necessity on the part of all members to reconsider the restructuring. That makes things somewhat more difficult, and there is no shadow of doubt but that there will be a problem in getting a longer term commitment of the kind that we would wish to have, or a structure on an equitable basis as between the prosperity per head of member States. We shall just have to continue our efforts.

Mr. Robert Rhodes James (Cambridge): Will my right hon. Friend agree that, although it is a perfectly fair point that under the previous Labour Government our contribution to the budget represented about £18 million per week and now represents only £1 million, and that that is a considerable achievement, there is far more to the EEC than the economic position and the budget?

With regard to the Geneva conference which is opening today, will my right hon. Friend agree that it shows the extreme importance of the principle of negotiation from strength, without which the negotiations would not have begun? Will she also agree that the zero option proposal genuinely represents one of the most solid and important possibilities for stability in Europe?

The Prime Minister: I agree, of course, that the Community means much more than economics, but, taking the whole swathe of Community policies, each State must feel that it gets a fair deal, as would be expected between partners.

With regard to my hon. Friend's points about the Geneva conference which opens today, and about the zero option and nuclear disarmament, I entirely agree that we can negotiate only from strength. Chancellor Schmidt had

the Prime Minister]

been very forthright before President Brezhnev arrived in Bonn, having said that he was all for the zero option announced by President Reagan if it could be negotiated. Chancellor Schmidt also said that he would make it abundantly clear to President Brezhnev that if the zero option could not be negotiated, and if there were no substantial advances in disarmament to keep the balance of power, the Pershings and cruise missiles would have to go into place at the due time in 1983. That was the right way in which to put the matter to President Brezhnev, so that he, too, would have a very strong incentive, as we all have, to have effective negotiations.

Mr. Ron Leighton (Newham, North-East): The Prime Minister's gloomy and dispiriting story proves yet again that we shall never achieve a fundamental reform of the CAP. As the right hon. Lady said, the Heads of Government met in May and gave their mandate to the Commission, they considered the proposals in June, and they told their Ministers to consult intensively and get a solution by November. Does the right hon. Lady recall that the Lord Privy Seal told the House that

"it is accepted by all the countries that it is necessary to arrive in November at a position where the Council can take decisions."—[*Official Report*, 29 October 1981; Vol. 10, c. 1047.]

Once again, the whole thing has ended in a debacle and, as Gaston Thorn said, there is no principle of compromise and solidarity. Is it not clear that we shall have better relations with the other countries only when we arrange our relations with them other than on the basis of membership of the EEC?

The Prime Minister: No, Sir. It would be highly damaging to the whole of industry and jobs in industry in Britain if there were to be any question of our leaving the Common Market. It is our biggest export market, and many jobs depend upon our membership.

With regard to the mandate, the hon. Gentleman is right in saying that we considered the procedure in June, following the report that we had received from the Commission. The matter was held up because of the results of the French election. The new French President said openly that he would not be in a position for some months to consider how to tackle the mandate. Therefore, the permanent officials' committee did not get down to work until September, so we lost the time from June to September. It is not surprising, therefore, that we have not been able to reach agreement this time.

The meetings in Dublin and in Luxembourg were difficult, but we had arrived at the precise time when decisions had to be taken, and the whole community knew that they had to be taken. They were taken, and Britain got a very fair deal.

Mr. Peter Mills (Devon, West): Will my right hon. Friend, in any further discussions or meetings, consider very carefully the threat of the Community to withdraw regional development grants to Britain, particularly in regard to the South-West of England? This is a very serious matter, it is totally unfair. It would cause more unemployment in the South-West. May the matter be dealt with speedily, please?

The Prime Minister: I believe that that matter has not been finally determined. I know that my hon. Friend

worries about it. We had a long discussion about regional policy, because the suggestion had been that the quota section of the fund should be applied only to the four less prosperous countries, but it was agreed that no country could be excluded from the fund. I shall look into the matter.

Mr. Nigel Spearing (Newham, South): Does the Prime Minister recall, and will she confirm, that the mandate for the budget agreed on 30 May was for two years, extendable to a third year, 1982? In the event of agreement not being reached in 1982, has the Council agreed that the arrangement should continue until agreement is reached?

The Prime Minister: No, because the refunds due for 1982 would not come in until 1983, and we hope to get very much further and to have a budget agreement before the end of 1982. The previous budget agreement was for three years, with a particular formula for the first two years, and then, in the absence of a general agreement, a similar formula to continue for the third year. I hope that we shall get an agreement on all aspects of the mandate, which does not cover only the budget; it covers the CAP and the other policies as well.

Mr. Peter Tapsell (Horncastle): May I remind my right hon. Friend that the French do not usually include the borrowings of nationalised industries in their Government deficits, and that in that and several other important respects it is difficult to compare our PSBR with theirs? More particularly, and at the risk of creating another split, may I urge my right hon. Friend to continue to regard with considerable scepticism the arguments in favour of Britain joining the European monetary system?

In addition to the point that my right hon. Friend has already made about our petro-currency, will she bear in mind that everything that we could and should achieve as a result of membership of the EMS could be better achieved by our own national efforts and that, far from doing anything to weaken our inadequate influence on interest rates and exchange rates, we should be seeking to increase that influence?

The Prime Minister: I am very much aware of the differences in calculating the overall borrowing requirement. That is why I tend to use the term "deficit" as referring much more to the central Government deficit, because of the complications which arise once one goes beyond that.

I would need to be convinced that there was positive advantage for Britain in going into the EMS. I agree very much with my hon. Friend's reasoning. One of the reasons for having a European monetary system was that it would require all countries to run what I would call sound financial policies, and having that firm and stable exchange rate would make it that much more necessary to have such policies. That has turned out to be not altogether true. For example, Ireland and Belgium are running deficits of 15 per cent. of gross domestic product. They are already in considerable difficulties, and the inflation rate varies between about 5 per cent. and over 20 per cent. So that reason does not seem to be prevailing. It appears that, if we want a stable exchange rate and a stable Europe, we must return to the formula used by my hon. Friend. We have to run our own economies properly; there is no substitute for that.

Mr. Andrew Faulds (Warley, East): In view of the unfortunate outcome of the conference with regard to

budgetary matters, and in view of the fact that the Arab summit at Fez terminated somewhat abruptly, is it not more important for the EEC to continue its foreign policy initiatives, particularly the Venice declaration, regardless of obstruction by Israel and the United States Government as a possible way of achieving peace in this dangerous area?

The Prime Minister: We are very well aware of what happened at Fez, but as we had issued a few days previously a statement, agreed with the Ten, about our attitude to Middle East problems and to the Sinai force, we did not feel that we had anything else to say. The hon. Gentleman will be aware that we agreed to respond to the invitation of the United States and Egypt to offer a small contingent for the Sinai force under the terms of the Israel-Egypt treaty, but we said at the same time that we, the Ten, were signatories to the Venice declaration. That declaration persists, and we hope to take it forward. We had nothing fresh to say on top of that.

Mr. Robin Maxwell-Hyslop (Tiverton): Did my right hon. Friend raise the matter of Greece, and were any decisions taken about Greece, in the light of the statement by Mr. Papandreou that his Civil Service would not enforce any Common Market regulations that might be to the disadvantage of Greece? Has it been made quite clear that if Greece withdraws from the EEC she cannot expect to keep any of the advantages that she had whilst she was a member?

The Prime Minister: We did not refer to that matter. Greece is still a member of the EEC, and is obviously trying to get as reasonable a deal as she can. Clearly she was particularly concerned with the debates and arguments about Mediterranean products. Mr. Papandreou took a considerable part in our discussions, and I imagine that Greece is considering her future very carefully, as it is clear that membership of the EEC offers clear advantages, not only for each country but for the EEC as a whole.

Mr. David Stoddart (Swindon): Does not the Prime Minister agree that the Genscher-Colombo proposals for

greater political union are tantamount to suggesting a federal European State in which this country and this Parliament would lose much of their sovereignty? Is the right hon. Lady aware that there is no mandate in this country for such a federal union, that there is no support for it in the House, and that she herself has expressed opposition to it? So there is little support for it. As she has expressed her opposition to a federal European State on previous occasions, why did she not kill the proposal stone dead?

The Prime Minister: First, I do not believe that the proposals amount to a federal European State. Secondly, in my opinion, the idea of a federal European State would not have a ghost of a chance of getting anywhere.

Mr. Teddy Taylor (Southend, East): If the lack of agreement on two major issues—contributions and the CAP—continues, would my right hon. Friend be prepared to consider proposing to resolve the matter by winding up the CAP, even if that meant an alteration of the treaty? Secondly, as fishing negotiations will take place before the next meeting of the Council, can she give a clear assurance that this Government will never agree to an agreement which does not include a 12-mile exclusive limit?

The Prime Minister: The fishing negotiations were to be held this week, but they have been postponed until mid-December because of the election in Denmark. I cannot say what will finally emerge, but I am convinced that my right hon. Friend the Minister of Agriculture, Fisheries and Food and the Minister of State will get a fair deal for our fishermen.

My hon. Friend well knows that the CAP is of great advantage to a number of member States. It emerged from discussion that States were prepared to follow prudent pricing policies to ensure that European and world prices came closer together. If we can get agreement in that respect, we shall ensure that less money is spent on disposing of surpluses in the CAP. If it is further agreed that agriculture is run in such a way that structural surpluses are not created, many of the problems of the CAP will be considerably diminished.



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Qz.02423

PRIME MINISTER

30 May 1980 Mandate: Revised Guidelines

BACKGROUND

1. You have convened an ad hoc meeting at 3 pm on 22 January to discuss with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture the line Lord Carrington should take at the resumed discussion on 25 January of the draft guidelines on the four outstanding mandate issues. You have agreed that Sir Michael Butler should also be present.

2. You will no doubt wish to base the discussion on the Foreign and Commonwealth Secretary's minute of 20 January and the accompanying Note by Officials setting out the present position on the four points and the options now open to the United Kingdom. The main issues for decision are set out in paragraphs 21 and 22 of the official Note. Ministers may also need to consider the text of a possible note of reservation by the United Kingdom on the lines of the draft suggested in my minute to Mr Coles of today's date.

3. The meeting is likely to agree that the draft guidelines on the control of agricultural expenditure and Mediterranean agriculture (paragraph 21 (i)) are tolerable as part of a more general package, and that our efforts should therefore be devoted to resisting attempts by others to weaken the present texts. There should



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also be little difficulty in reaching agreement on the changes to be sought in the budget text (paragraph 21 iii-v).

4. On milk, and its relationship to the budget guidelines, the meeting may need to resolve significant differences of view. Whereas all the Ministers concerned are likely to agree that the present milk text is deficient in important respects and should be improved if possible, the Minister of Agriculture may argue that failure to secure either a reversion to the Lancaster House text in Annex A to the Note or the amendments set out in paragraph 21 (ii) should create a break point for the United Kingdom. He may be expected to contend that we have already given ground, albeit provisionally, on the other agricultural texts and that he could not justify further concessions on milk unless they form part of a complete price package with some compensatory gains for UK farmers plus a successful budget settlement. In short, if the changes we want to make to the milk text prove unnegotiable he may want the United Kingdom to withhold assent to the guidelines as a whole even at the cost of failing to agree a satisfactory text on the budget.

5. In his minute of 20 January, the Foreign and Commonwealth Secretary argues on the other hand that a failure to settle the guidelines now would be likely to hold up the negotiations on the budget and reduce our chances of making effective use of the leverage provided by the price fixing negotiations. He



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fears that a breakdown on 25 January would be blamed on the UK, would bring the momentum of the mandate negotiations to a premature halt, and would put in jeopardy the progress we have already made on the budget chapter.

6. The Chancellor of the Exchequer will attach importance to getting the budget text right on degressivity and to holding on to the improvements we have already won in this text. But he may consider that the UK would be unlikely to lose what it has gained on the budget even if there were no agreed guidelines, and that there is accordingly no need to pay for the progress that has been achieved on the budget by making further concessions on milk.

7. The first major question for Ministers to decide is therefore whether a failure to agree guidelines, and thus to discharge the remit which the European Council gave to Foreign Ministers last November, would weaken our chances of negotiating an acceptable settlement on the budget. Given the primacy of our budget objectives, this in turn calls for a judgement on whether those objectives are more likely to be secured by moving forward to the crucial negotiations on figures within agreed guidelines (with acceptable wording on degressivity) or by sticking on milk, abandoning the guidelines, and pursuing our aims outside an agreed framework. Would a row now with our partners, as opposed to the inevitable conflict later on when we get to figures and the price fixing, help or hinder the continuing process of wearing down the opposition to a decent settlement on the budget?



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Are the possible concessions on milk intrinsically unacceptable or might we be ready to trade them in the price settlement? If so, would any major damage be done to British interests if we decided to accept them now in order to hold the budget guidelines together?

8. The second major question only arises if Ministers decide to continue the search for agreement on guidelines. But, if that were the decision, it would be important to establish how best we could protect the UK against charges of bad faith if the UK were later obliged to stop the implementation of the Mandate conclusions in general because the others would not agree to an acceptable solution to our budget problem. A possible way of dealing with this problem is contained in my minute to Mr Coles of today's date.

HANDLING

9. You may wish the Foreign and Commonwealth Secretary to introduce his minute and the official Note.

10. You might then find it convenient to focus the discussion on the conclusions in paragraphs 21 and 22 of the Note, referring back as necessary to the texts and commentary in the body of the Note and its annexes.

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11. If the meeting is unable to agree on paragraph 22, you may wish to consider how the Foreign and Commonwealth Secretary should play his hand in the event of a failure to agree on guidelines on 25 January. You may consider that he should press for some alternative procedure to be agreed for taking work forward on the three chapters of the mandate, including a remit to the Commission and COREPER to prepare for further discussions on the budget in preparation for decisions at the March European Council.

12. If the meeting does agree that the UK should seek to secure agreement to guidelines, should the Foreign Secretary reserve our position on the implementation of the mandate conclusions as suggested at your meeting with him this morning?

CONCLUSIONS

13. Subject to the discussion, you may be able to conclude that the Foreign and Commonwealth Secretary should be guided at the 25 January meeting by:-

- (i) the objectives set out in paragraph 21 of the official Note; possibly supplemented by the formula in my earlier minute of 21 January to Mr Coles;
- (ii) whatever decision is reached on the relationship between the milk and the budget texts, and the procedural implications for further work on the mandate.

D.H.

D J S HANCOCK

21 January 1982



PM/82/4

PRIME MINISTER30 May Mandate

Last week's second informal Foreign Ministers' meeting failed again to reach agreement on guidelines for dealing with the two most difficult issues remitted to us by the November European Council; milk and the budget. The other two issues, Mediterranean agriculture and the relative rate of increase of own resources and agricultural spending, are generally regarded as settled, although some skirmishing is still going on around them.

Foreign Ministers are to meet again on 25 January in a further effort to reach agreement and thus to clear the decks for the substantive negotiations which lie ahead both on the budget and on agriculture. I attach a note by officials, which sets out the points on which we need to take decisions at your meeting on Friday.

The budget text is now, I think, getting close to providing us with an adequate basis for achieving our objectives in the substantive negotiation which must follow. We have got clear acceptance of the need for objective indicators to gauge the size of the problem. We have a reference to the financial mechanism. There is provision for review which, while not quite what we were hoping for, is useful. The two outstanding problems are duration and degressivity. Of the two, I am convinced the latter is the more important. We should only accept a text on degressivity which enables us to resist arbitrary degressivity when the numbers are negotiated. If we can get this, I believe we could afford to settle for four years rather than five, although I would certainly make a further effort to get the latter.

The position on milk is more difficult. We have now lost the support of the Danes and the Dutch who have said that they will accept the present text. From our point of view it is far from ideal,

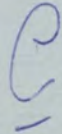
/and



and I will certainly do my very best to improve it when the discussion resumes next Monday. But the key point which we shall have to consider on Friday will be how far we can go in accepting an unsatisfactory milk text if we could get a satisfactory text on the budget.

The decision turns on the consequences we foresee of a failure to agree guidelines for the negotiations on the budget. Certainly there would be recrimination because we would be seen as responsible for failure to discharge the Mandate given to Foreign Ministers at the European Council. That in itself would not be a disaster, but we would lose the ground we have gained from others on the budget. There is also a risk that the French and others will take advantage of what we have done to hold up the negotiations on the budget figures - for example by persuading the Commission ^{not} to make a proposal. This would, in practice, make it more difficult for us to use the leverage provided by the price review. For these reasons, my tactical judgement is that it is in our interest to make a genuine effort to reach agreement next week.

I am sending copies of this minute to the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, and to Sir Robert Armstrong.


(CARRINGTON)

Foreign and Commonwealth Office, SW1
20 January 1982

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CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

01-XXXXXXXX
233 7256

Qz.02419

20 January 1982

D H A Hannay Esq CMG
Foreign and Commonwealth Office
London SW1

Dear David,

30 MAY MANDATE

I attach the note by officials in the form agreed at the meeting in the Cabinet Office this morning. I understand that your intention is to suggest that the Foreign Secretary should send it to the Prime Minister, under a covering minute, with copies to the Chancellor and the Minister of Agriculture. It will then provide the basis for the meeting arranged for 3 pm on Friday at No 10.

Yours,

David.

D J S HANCOCK

cc: Lord Bridges) FCO
→ Mr de Fonblanque)

Mr Andrews)
Mr Stapleton) MAFF
Mr Haddon)

Mr Littler)
Mrs Hedley-Miller) H M Treasury
Mr Edwards)
Mr Fitchew)

For information: Sir Michael Butler KCMG, UKREP, Brussels

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30 MAY MANDATE

Note by Officials

1. The European Council last November identified four major issues to be resolved if agreement was to be reached on guidelines to implement the 30 May Mandate. Foreign Ministers met in December under the UK Presidency and again on 14/15 January under Belgian Presidency. Much progress has been made. A further meeting on 25 January will attempt to resolve the outstanding issues. It may be the last opportunity to agree guidelines.
2. This note sets out the present position on the four major issues and the options open to us. The sequence is that followed in the Council Secretariat text.

Milk Products

3. The text before the meeting is:-

"MILK PRODUCTS

[(1) In the milk sector the co-responsibility levy should be maintained at its present level with the existing exemptions.

(2) Account will have to be taken of the situation of small producers, for whom special measures will be provided, financed by the Community budget (*).

? (3) At the same time the European Council agrees that should milk deliveries increase significantly from one marketing year to the next, the Council will take appropriate decisions to offset the additional costs this entails on the basis of Commission proposals.

? (4) In addition, the European Council, aware of the need to avoid an increase in milk surpluses, invites the Council to take the necessary measures to ensure better market equilibrium.] (1)

Footnote

(*) The Commission is invited to make proposals within a financial frame of 120 MUC for the next marketing season.

Reservations

- (1) - Reservation by the UK delegation on the whole text.
- Reservation by the Irish delegation on paragraphs 3 and 4.
- Reservation by the Danish delegation on the footnote."

4. The UK has a reserve on the whole text. It does have the merit that we have succeeded in knocking out any specific reference to differentiation in the co-responsibility levy as a means of helping small farmers. But, even so, it is an unsatisfactory text for a number of reasons. The first paragraph appears to commit us to the present co-responsibility levy for an undefined period. The second paragraph commits us to special measures for small producers to be financed by the Community (the footnote specifying the amount of the intended expenditure) and without any linkage to need arising from a policy of price restraint and from modulation of the guarantee. The third paragraph would permit an increase in the milk surplus before it became operative; while the major priority of tackling the milk surplus is left to the final paragraph and is expressed in a weak formulation without any commitment to a particular form of action or any link to the more specific measures in the first two paragraphs.

5. One option Ministers may wish to consider is whether we should say on 25 January that the UK cannot go further than the text tabled at Lancaster House last December by the Presidency/Commission (Annex A). But it would only be realistic to recognise that if we take up this position there is unlikely to be agreement on guidelines.

6. Officials have considered what amendments to the new text we might try to secure in order to limit the concessions we would have to make. The suggestions are set out below with changes underlined.

a. Co-responsibility. If the text could be amended to limit its impact to a single marketing year or to leave the rate of the levy for decision by the Agriculture Council in the price fixing, or both, we would avoid any permanent commitment to the levy at its present rate. To achieve that effect, we might propose that the first paragraph be amended as follows:-

"In the milk sector the co-responsibility levy with the existing exemptions should be retained for 1982/83 at a rate to be determined by the Council."

It is possible that prolonged argument would result in this paragraph being dropped altogether which would be satisfactory to us.

NA dlv

b. Small Milk Producers. One of our objectives in measures to help small milk producers is to secure an element of national financing so as to provide a constraint. It would help us if the text were amended to read:-

"Account will have to be taken of the situation of small milk producers for whom special measures will be provided, the modalities including the financing to be determined by the Council."
[Foot note deleted].

c. Measures to curtail surpluses. To ensure that measures to curb surpluses are not ruled out from consideration during this year's price fixing, we might propose that the meeting go back to the following amalgamation of paragraphs 3 and 4, on the lines of a draft at one stage tabled by Tindemans:-

"The European Council, aware of the need to avoid an increase in milk surpluses, invites the Council to take the necessary measures to ensure better market equilibrium, in order to limit budgetary costs."

In order to preserve our freedom to argue that help to small producers should be linked to measures to curb surpluses it would be desirable to have this paragraph put first.

Mediterranean Products

7. The text before the meeting is:-

"MEDITERRANEAN PRODUCTS

(1) In view of the importance of Mediterranean agricultural products for the development of the Mediterranean regions, the European Council is agreed on the urgent need to improve the existing regulations, particularly, though not exclusively, in the wine, fruit and vegetables and olive oil sectors. The European Council would emphasise the need in this latter sector for examining the problem of vegetable oil imports taking account of the international obligations of the Community, including those of the GATT.

(2) It calls on the Council to adopt the appropriate decisions very quickly, with account being taken of the need to improve the market organisations both from the point of view of producers' incomes and for the sake of efficient and economic management of the market. With regard to the proposals already presented by the Commission, the decisions will have to be taken by 31 March 1982 at the latest."

8. This text refers to the need to improve the Mediterranean regimes. It refers specifically to wine, fruit and vegetables and olive oil. However, we have always been ready to accept specification of particular regimes and there is a clear reference to the need to take account of the efficient and economic management of the market which would enable us to argue that the budgetary costs of the regimes should be held down. In response to French pressures there is now a reference to the "problem" of vegetable oil imports. From our point of view, there is no "problem." But the reference to vegetable oils, while unwelcome, provides no commitment to particular action and includes a firm statement of the need to take account of the international obligations of the Community including the GATT. No one could accuse us of bad faith if we continued to argue against measures which would constrain or tax vegetable oil imports.

9. At present there are no reserves on this text and it may be agreed without further discussion. If there were a discussion we should try to get out the reference to the "problem" of vegetable oil imports. But in the context of an overall agreement we should accept the text as it stands.

Budgetary Aspects of the CAP

10. The text which will be before the meeting is:-

"BUDGETARY ASPECTS OF THE CAP

- [(1) It will be the responsibility of the Council, acting on proposals by the Commission, to adopt, without prejudice to the aims reaffirmed in paragraph 4 of the Preamble, the necessary decisions on implementation of the above guidelines to ensure that the rate of growth of agricultural expenditure will rise less rapidly than the Community's own resources. It will be the responsibility of the Council and the Commission to manage agricultural expenditure within that framework.
- (2) The implementation of these guidelines should be evaluated as an average over several years in the case of erratic development of the conditions under which the Common Agricultural Policy is executed.
- (3) The implementation of these guidelines must not call into question the basic principles governing the CAP]. (1)

Reservations

- (1) Reservations by the Italian, Greek, Irish and Danish delegations."

11. For the UK this text represents a modest advance which could help us in resisting Commission and Council pressures for excessive increases in expenditure on the CAP and protect us against weaknesses elsewhere in the CAP guidelines. Italy, Greece, Ireland and Denmark all retain reserves on the text and can be expected to make further efforts to have it diluted. The reference to paragraph 4 of the preamble to the guidelines which refers inter alia to the needs of less prosperous member states was added to meet Italian concerns; but the Dutch and the Germans may try to have it removed. If so, we should support them. We should resist any further weakening whether in meeting the specific concerns of the less prosperous member states or in the overall effectiveness of the guideline.

The Budget

12. The text before the meeting is attached at Annex B.

13. The main problem with it is the reference to degressivity in the last but one sentence of paragraph (2). It is marginally better than M. Thorn's original suggestion that the corrective measures should involve "some kind of declining scale" and Sir Michael Butler has suggested (in paragraph 11 of his telegram No 166 of 18 January at Annex C) that we could accept the words subject to a formal declaration in the minutes that any element of degressivity can only be within the framework of the adjustment of Community policies. But Departments feel that this would be too risky. The Commission would almost certainly consider that the words in the text at present would give them authority to propose a scheme incorporating a declining scale, regardless of progress on adjustment. The Foreign Secretary has in any case stated that in no circumstances could he accept the new words.

14. We cannot accept any text which clearly implies arbitrary degressivity. We may not be able to get a text which clearly rules it out. But any text we do accept must leave us free to argue that the European Council has not endorsed arbitrary degressivity and that we are not committed to it. We have asked the Germans whether they would be prepared to propose either of the two texts:-

"The solution will involve an element of degressivity as the Community adapts its policies to ensure that the need for compensation is reduced."

"These measures will contain an element of degressivity as the Community succeeds, as intended, in adjusting its policies with a view to avoiding the need for compensation."

15. On duration, the other member states have agreed to four years; we have said we can accept five, having come down from our original bid for seven. Clearly we should try to get agreement to five; but officials consider that resisting four in the last resort should be given a lower priority than either an acceptable form of words on degressivity or some improvement in the text on milk.

16. The treatment of the review in the new text - namely that "the Commission will report on the application of the measures and make suitable proposals if necessary" - would be better from our point of view if it also included a commitment by the Council to act if the UK problem still existed. But the words in the text have been accepted by the others and would certainly provide an opportunity for us to make our case, and officials doubt whether it would be worth a new attempt to improve it on 25 January.

17. Paragraph (4) of the text deals with the problem of financing the refunds to the UK. It contains a commitment to give relief to Germany and to the less prosperous countries but does not specify the method. There are many legal, practical and political problems to be overcome before an agreed solution can be found. It would not be in the UK interest to create difficulties about this paragraph on 25 January.

18. For the rest, the text has achieved a good deal for us:-

- (i) it disposes of the suggestion that the solution should be arbitrary or lump sum;
- (ii) it brings the financial mechanism into the negotiations;
- (iii) it includes in paragraph (1) a reference to convergence and in paragraph (2) a reference to the relative prosperity of the United Kingdom, thus strengthening our case for arguing for a very small net contribution;
- (iv) It proposes an objective indicator in paragraph (3) which is identical to the receipts mechanism for which we argued in February 1980;
- (v) it protects us against the implication in M. Thorn's draft that we might have to wait until the budget accounts were finally settled before getting our refunds.

19. No progress was made towards agreement on figures but the Foreign Secretary was able to register two important points during the meeting on 14/15 January. The first was that, as a country below the Community average level of prosperity, we should, in equity and common sense, be a net beneficiary from the budget; but that, if that were too radical a change to bring about on this occasion, we certainly intended to remain a very modest net contributor. The second was that our willingness to work on the basis of the objective indicator in paragraph (3) of the proposed text, plus an effective financial mechanism, was contingent on its producing an outcome which, in financial terms, did not leave us in an unacceptable situation. The Foreign Secretary made it quite clear that, if that condition were not fulfilled, another method of proceeding would have to be found.

The Scope for Further Progress on 25 January

20. We shall be under great pressure to agree to the draft guidelines in their present form on 25 January. They are the outcome of nearly six months negotiations and 3 major Ministerial meeting. The Presidency and the Commission and a number of other member states will argue that they reflect a fair balance between the conflicting views of delegations and should now be accepted as a fair compromise. We may be criticized sharply for proposing new amendments. It will be difficult to get agreement on a better formula on degressivity. We are unlikely to be able to secure both that and the improvements suggested on milk. In deciding the approach to the meeting on 25 January Ministers will wish to make a judgement of how much better off we would be with guidelines than without.

Conclusions

21. Against this background, Ministers may wish to consider whether the UK should, at the resumed meeting on 25 January:-

- (i) accept the draft guidelines on the agricultural ceiling and Mediterranean agriculture and resist attempts to water them down.
- (ii) seek to amend the draft on milk to secure
 - (a) avoidance of commitment at this stage to the continuation of the linear co-responsibility levy at its present rate and beyond 1982/83.

- (b) preservation of the possibility that special assistance to small milk producers be at least in part nationally financed and be linked in some way with measures to curb milk surpluses;
 - (c) avoidance of any implication that milk production has to increase further before action is taken to curb production.
- (iii) refuse to accept the present sentence on degressivity in the budget guideline and argue as a minimum for one that, even if ambiguous, is at least consistent with our view that the solution can only be degressive to the extent that Community policies are adapted;
- (iv) try to secure agreement to a five-year duration but accept four in the last resort;
- (v) accept the rest of the budget draft guideline in its present form.

22. Ministers may also wish to consider whether, if necessary to secure an acceptable text on degressivity and in order to keep up the pressure on the Commission and other member states to negotiate seriously on the budget, the UK should accept a text on milk which is not in all respects satisfactory.

Cabinet Office
20 January 1982



M I L K

Text proposed by the Presidency and the Commission

Appropriate means to deal with the increased production of milk beyond a level to be established by the Council should be decided by the Council with effect from the 1982/83 marketing year. The Council should take into account the effect of these decisions on the incomes of small milk producers and should decide on any appropriate measures to safeguard the incomes of such producers.

DRAFT GUIDELINES ON BUDGET

(1) On 30 May 1980 the Council requested the Commission to examine the development of Community policies, in particular with a view to preventing the recurrence of unacceptable situations for any of the Member States. The European Council has now considered the Community's budget situation on the basis of the report, drawn up by the Commission pursuant to the Mandate of 30 May 1980. It recognised the need to seek a better balance between Community Policies and to secure harmonious distribution of Community resources in the financing of these policies, in order to create a sound basis for the further development of the Community and in order to promote convergence in economic performance. It further considered that its conclusions on the development of Community policies and the adjustment of the common agricultural policy were the first major steps in this direction.

(2) Accordingly, and in view of the fact that the United Kingdom is not among the more prosperous Member States of the Community, the European Council adopted the principle of measures to grant the United Kingdom financial compensation to come into force from the 1982 financial year. They will apply for [four] (1) years. Before the end of the fourth year the Commission will report on the application of the measures and make suitable proposals if necessary. (1)

[Within the framework of the adjustment of Community policies with a view to avoiding compensation, this solution will also contain an element of degressivity.]

(2) These measures must not affect the Community's financial system.

(3) The amount of compensation will be determined each year, ex post facto in the light of the real size of the problem, as measured by an objective indicator without excluding if necessary the Financial Mechanism (*) (3) and on the basis of the level of compensation agreed and the methods of calculation and timing of payments adopted. With this method there will be no need for fresh negotiation each year.

Footnote

(*) "The Council asks the Commission to present before the end of February 1982 a report on the desirability of including the Financial Mechanism in the solution in order to facilitate the disbursement of the British refund."

Reservations

(1) UK reservation.

(2) The United Kingdom delegation has requested it to be recorded that this text in no circumstances can be accepted by it.
The French delegation has stated a reservation on the same text.

(3) The French delegation has objected to any reference to continuing the Financial Mechanism.

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The objective indicator can be based on the difference between the United Kingdom share in the Community gross domestic product (calculated on an average over several years, with the addition, if necessary, of clauses to prevent erratic variations) and the United Kingdom share in budget payments during the year in question.

(4) Compensatory payments are to be incorporated in the budget (1). The measures adopted will respect the principles of solidarity, which the Community intends to apply with regard to its least prosperous members, and will take appropriate account of the problem of the Federal Republic of Germany's contribution. (Compensation to the United Kingdom must have only a minor effect on the burden to be borne by Germany).

Reservation:

- (1) The Netherlands delegation stresses that it is a condition for accepting the arrangement that the cost is financed in the budget and within the existing 1% VAT ceiling.

CONFIDENTIAL

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GRS 1100
 CONFIDENTIAL
 FRAME ECONOMIC
 FM UKREP BRUSSELS 181222Z JAN 82
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 166 OF 18 JANUARY
 INFO EC POSTS

MY TELEGRAM NUMBER 158: ~~30~~ MAY MANDATE - INFORMAL FOREIGN
 MINISTERS MEETING ON 25 JANUARY

1. YOU MAY LIKE TO HAVE SOME COMMENTS ON THE HANDLING OF THE
 REMAINING ISSUES ON 25 JANUARY.
2. THE MEDITERRANEAN TEXT, ON WHICH THERE ARE NO OUTSTANDING
 RESERVES, SEEMS ACCEPTABLE. NO-ONE CAN ACCUSE US OF BAD FAITH IF
 WE CONTINUE TO ARGUE OUR PRESENT LINE ON VEGETABLE OIL IMPORTS.
3. THE TEXT ON THE BUDGETARY ASPECTS OF THE CAP SEEMS ACCEPTABLE
 TO US. THOSE WITH RESERVATIONS WILL TRY TO WATER IT DOWN. THERE
 WILL BE STRONG RESISTANCE TO THIS FROM THE GERMANS AND DUTCH. WE
 CAN SUPPORT THEM WITHOUT DIFFICULTY. BUT WE SHOULD GO WITH THE
 GERMANS IF THEY ARE PREPARED TO COMPROMISE A LITTLE.
4. IF TINDEMANS RUNS TRUE TO FORM, HE WILL PUT ALL CONCERNED
 UNDER PRESSURE TO ACCEPT THE TEXTS ON MILK AND THE BUDGET AS THEY
 ARE. I EXPECT THAT A MAJORITY OF MEMBER STATES WILL SUPPORT THIS
 APPROACH. SO IT IS NOT GOING TO BE EASY TO SECURE FURTHER IMPROVE-
 MENTS.

MILK

5. ON MILK WE HAVE SUCCEEDED IN KNOCKING OUT ANY IMPLICATION
 THAT DIFFERENTIATION IN THE CO-RESPONSIBILITY LEVY WILL BE USED
 FOR THE PURPOSE OF HELPING SMALL FARMERS. INDEED IF PARA 2 AND
 THE FOOTNOTE WERE ACCEPTED, THE STRONG IMPLICATION WOULD BE THAT
 OTHER MEASURES COSTING UP TO 120 MILLION ECUS WOULD BE PROPOSED.
6. OUR SHARE OF 120 MILLION ECUS IS NOT A LOT OF MONEY IN
 RELATION TO THE UK BUDGET PROBLEM. FURTHERMORE IF THE OBJECTIVE
 INDICATOR OF THE GAP BETWEEN GDP SHARE AND BUDGET RECEIPTS IS
 USED TO SETTLE UK COMPENSATION, WE SHALL GET A VERY HIGH PROPORTION
 OF OUR NET CONTRIBUTION BACK. IN MY VIEW, THE PROGRESS ACHIEVED
 ON THE BUDGET (SEE BELOW) MAKES THIS A POINT WORTH CONCEDING.
7. PARA 3 IS NOT IDEAL THOUGH PRETTY CLOSE TO WHAT THE AGRICULTURE
 COUNCIL AGREED LAST YEAR. WITH THE ADDITION OF PARA 4,
 I SUGGEST THAT IT IS ACCEPTABLE.

CONFIDENTIAL

/8. THAT

CONFIDENTIAL

8. THAT LEAVES PARA 1. WE COULD TRY TO KNOCK THIS OUT ON THE GROUNDS THAT THERE IS NO LONGER ANY JUSTIFICATION FOR IT. IT IS NOT RELATED TO PARA 2 (OR 3 OR 4) AND THERE IS NO REASON WHY FOREIGN MINISTERS SHOULD DECIDE ON THIS TECHNICAL POINT. BUT YOUR EXPERIENCE ON FRIDAY WHEN YOUR REPEATED EFFORTS TO DO THIS WERE NOT SUCCESSFUL MAKES THIS A DOUBTFUL AIM, PARTICULARLY SINCE DEGRESSIVITY AND DURATION ARE MORE IMPORTANT. IT SEEMS VERY UNLIKELY THAT MR WLAKER WOULD BE ABLE TO GET AGREEMENT IN THE PRICE FIXING THAT THE LEVY SHOULD GO DOWN BY 1 PER CENT THIS YEAR. TO CONCEDE THE POINT NOW IS TIRESOME BECAUSE IT REMOVES FROM HIM A BARGAINING LEVER. ON THE OTHER HAND THE TEXT DOES PRECLUDE OTHERS FROM PROPOSING THAT THE LEVY BE RAISED AND TAKEN TOGETHER WITH OTHER PARAGRAPHS SEEMS TO DISCOURAGE AN ELABORATION OF FRANCHISES. I RECOMMEND THAT ON 25 JANUARY YOU BEGIN BY ARGUING THE CASE FOR REMOVING PARA 1, BUT SWITCH FAIRLY SOON TO TRYING TO TRADE ITS ACCEPTANCE AGAINST CONCESSIONS ON DURATION AND DEGRESSIVITY.

THE BUDGET

9. WE HAVE MADE SOME SIGNIFICANT PROGRESS. THE FRENCH AND OTHERS HAVE HAD TO ABANDON THE "FORFAITAIRE" APPROACH. THE IDEA OF A BUDGET RECEIPTS MECHANISM, FOR WHICH WE ARGUED SO STRONGLY WITHOUT SUCCESS IN FEBRUARY 1980, HAS NOW BEEN VIRTUALLY ACCEPTED. THE FINANCIAL MECHANISM HAS BEEN GIVEN A BETTER CHANCE OF SURVIVAL AND IMPROVEMENT THOUGH A HARD BATTLE REMAINS TO BE FOUGHT. WE HAVE GOT INTO PARA 1 THE AIM OF PROMOTING CONVERGENCE IN ECONOMIC POLICIES AND INTO PARA 2 THE RELEVANCE OF THE FACT THAT WE ARE NOT AMONG THE MORE PROSPEROUS STATES, THUS STRENGTHENING OUR CASE FOR ARGUING FOR A VERY SMALL NET CONTRIBUTION. TO INSERT IT INTO PARA 3 WOULD NOT MAKE ANY SIGNIFICANT DIFFERENCE. WE HAVE MADE IT QUITE CLEAR THAT IF PARA 3 DOES NOT YIELD SATISFACTORY RESULTS FROM OUR POINT OF VIEW, ANOTHER WAY OF DOING THE TRICK WOULD HAVE TO BE FOUND.

10. SO I THINK THAT, IF WE CAN GET PARA 2 RIGHT, THE TEXT IS WORTH HAVING. I JUDGE THAT WE OUGHT TO BE ABLE TO GET 5 YEARS WITHOUT TOO MUCH DIFFICULTY IF WE ARE ABLE TO ACCEPT THE TEXT ON MILK. DEGRESSIVITY IS MORE DIFFICULT.

/11. ONE

CONFIDENTIAL

11. ONE POSSIBILITY WOULD BE TO LOBBY GENSCHER PERSONALLY IN ADVANCE TO GO BACK TO HIS MORNING PROPOSAL (THE "ZUMAL" TEXT). I DOUBT IF HE WILL. UNLESS WE CAN GET GERMAN SUPPORT, I SEE VERY LITTLE CHANCE OF MOVING THE FRENCH AND THE DUTCH WHO ARE PRETTY ENTRENCHED AND DO NOT EVEN LIKE THE SECOND GERMAN TEXT NOW IN SQUARE BRACKETS. ANOTHER POSSIBILITY WOULD BE TO SAY THAT, AFTER CAREFUL EXAMINATION, WE HAVE COME TO THE CONCLUSION THAT THE PRESENT TEXT, THOUGH A BIT OBSCURE, MEANS WHAT WE SAY IT SHOULD MEAN, IE THAT ANY ELEMENT OF DEGRESSIVITY CAN ONLY BE WITHIN THE FRAMEWORK OF THE ADJUSTMENT OF COMMUNITY POLICIES. WE CAN ADD THAT, WHEN THE TEXT COMES TO BE FORMALLY APPROVED BY THE COUNCIL, WE WILL MAKE A STATEMENT IN THE MINUTES TO THIS EFFECT. THE FRENCH AND THE DUTCH MAY WELL TRY TO CHANGE THE TEXT IN THEIR DIRECTION. IN WHICH CASE WE COULD SWING IN BEHIND THE GERMANS AND THE PRESIDENCY IN PRESSING THEM TO STICK TO THE PRESENT TEXT. I DO NOT THINK THAT THIS WOULD BE A BAD OUTCOME. OUR INTERPRETATION OF ITS MEANING WOULD BE STRENGTHENED. THE POSSIBILITY THAT THE BATTLE ON DEGRESSIVITY WOULD CONTINUE DURING THE NEXT PHASE WOULD STILL BE LEFT OPEN. BUT I DO NOT THINK THAT THIS WOULD MAKE IT SUBSTANTIALLY MORE DIFFICULT TO WIN THE NECESSARY BATTLES ON FIGURES, PERCENTAGES AND THE FINANCIAL MECHANISM.

12. ONE WORRYING ASPECT OF THE BUDGET TEXT IS THAT PARA 4 LEAVES OPEN THE POSSIBILITY OF ENDLESS ARGUMENT AND CONFUSION ABOUT HOW TO DEAL WITH THE GERMAN PROBLEM AND THE LESS PROSPEROUS MEMBERS. BUT THERE IS NO WAY THESE DIFFICULTIES CAN BE SORTED OUT IN THE NEXT WEEK AND IT WOULD BE A MISTAKE FOR US TO RE-OPEN THE TEXT IN THE SEARCH FOR GREATER CLARITY NOW.

FCO ADVANCE TO:
FCO - HANNAY DE FONBLANQUE ECD(I)
CAB - HANCOCK
MAFF- ANDREWS
TSY - EDWARDS

BUTLER

[ADVANCED AS REQUESTED]

FRAME ECONOMIC
ECD (I)

AmA

Oslo

10 DOWNING STREET

Prime Minister

30 May Mandate

The Foreign Secretary wishes to discuss this minute with you on Thursday, prior to a Ministerial meeting arranged for Friday.

2. Lord Carrington would like David Hancock to be present on Thursday since he has chaired the meetings of officials and can give an impartial view on the technical issues. Agree? Yes

3. For the Friday meeting I propose to invite the Foreign Secretary, Chancellor, Minister of Agriculture, Sir Robert Armstrong, Mr. Hancock and Sir Michael Suttar (who will be in London anyway). Agree? Yes

A.S.C.

Objective utilities

Part
4

Euro Budget 12/13

✓ Euro PSD : CAP: Pt 9.

Euro MA

CONFIDENTIAL

Qz.02420

PRIME MINISTER

Cabinet: Community Affairs

1. You will wish the Foreign and Commonwealth Secretary to report on the discussion of the four outstanding mandate issues at the 14/15 January informal meeting of Foreign Ministers. The guideline texts which emerged on the Mediterranean and the control of agricultural expenditure do not pose major problems for the United Kingdom, and the new budget text contains a number of welcome features. But it still refers to degressivity in unacceptable terms; and the draft guideline on milk, on which the Dutch and the Danes deserted us in the later stages of the meeting, goes too far towards a commitment to income aids for small producers without any linkage to price restraint or effective measures to curb the milk surplus. The Foreign and Commonwealth Secretary accordingly reserved the United Kingdom's position on the entire milk passage and made clear our refusal to accept the formula on degressivity. Discussion will be resumed at a further meeting of Foreign Ministers on 25 January, and you have convened a meeting of the Ministers concerned on 22 January to settle the UK line.

2. The Foreign and Commonwealth Secretary might also inform the Cabinet of the result of the European Parliament's Presidential Election on 19 January. Mr Dankert, a Dutch Socialist, was elected to succeed Madame Veil, Sir J Scott Hopkins having been defeated at the penultimate voting stage.

/3.

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3. The Minister of Agriculture might report on the 19 January Agriculture Council, which reached agreement on a beef package that should resolve the Community's problems with Australia on beef imports. The Commission withheld their price fixing proposals until after the next discussion on the mandate.

4. The Minister of Agriculture might also report on his Minister of State's talks with Commissioner Contogeorgis on fish on 19 January. It emerged that the Commission were aiming for the Common Fisheries Policy negotiations to resume at a Fisheries Council early in March, to be preceded by further Anglo-French talks with some involvement of the Commission.

5. Next week the Foreign Affairs Council meets on 25/26 January.

D.H.

D J S HANCOCK

20 January 1982

Qz.02418

MR COLES

PRIME MINISTER'S MEETING ON THE 30 MAY MANDATE

I understand that an ad hoc meeting is being arranged for 22 January to enable Ministers to agree on the approach to the next informal meeting of Foreign Ministers on the 30 May Mandate.

The Prime Minister may like to consider the possibility of inviting Sir Michael Butler to attend this meeting in view of his close involvement throughout these negotiations and in order to advise on the most recent developments in Brussels.

D.H.

D J S HANCOCK

19 January 1982

Envo Rd
Agreed. I have spoken
to Mr. Hancock who will
tell Sir M. Butler.

A.J.C. 21

h.a.

1 JAN 1982

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CONFIDENTIAL *Prime Minister*

①

The tactic of linking the budgetary discussion with the agricultural price negotiations will not work unless we are prepared to be tough on agricultural prices.

A.J.C. 18/1

FCS/82/11

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Mund
MT

P.A. 18/1

30 May Mandate/CAP Prices

1. As you will be aware, although we made quite a bit of progress on the budget, the informal meeting of Foreign Ministers last week again failed to reach agreement on guidelines on the 30 May Mandate. We will return to this task again at the Foreign Affairs Council on 25 January. But Chandernagor's remarks (Paris tel no 57) indicate that the French may try to defer decisions on the budget aspects of the Mandate until after the agricultural price negotiations have been completed.

2. We clearly cannot allow this. As in 1980, our best chance of obtaining an acceptable budgetary arrangement is by using the leverage afforded by agricultural prices. I believe it would not be in our interest, however, ourselves to make the link explicit if we can avoid it. If others do so, as the French did in 1980, so much the better.

3. In order to ensure that both negotiations proceed together, it will, I believe, therefore be necessary to take up a tough stance on the substance of the issues in the agricultural price fixing. In any discussion of the Commission's proposals at tomorrow's Council, I hope that (without going into too much detail which would probably be premature at this stage) you will leave your colleagues in no doubt that we shall want to see implemented in this year's agreement those significant changes in the CAP which we have been advocating in the Mandate negotiations.

4. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

(CARRINGTON)

18 January 1982

CONFIDENTIAL

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016

Prime Minister (2)

A.T.C. 19.1



RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR AND THE FEDERAL GERMAN FINANCE MINISTER AT NO 11 DOWNING STREET AT 2.45 P.M. ON 14 JANUARY.

Present: Chancellor of the Exchequer
Sir Kenneth Couzens
Mr J G Littler
Mr J O Kerr
Mr R R Garside

Herr Matthofer
Dr Heck
Dr Kudlich

mk

p-a.

mk 20/11.

Welcoming Herr Matthofer to London, the Chancellor said that he had suggested the meeting in order to continue the discussion, begun on the occasion of the Prime Minister's visit to Bonn on 18 November, of the urgent question of future European Community Budget arrangements. UK and German interests were very similar: a common understanding should be possible, and would be of great value. Herr Matthofer agreed: he had welcomed the idea of another discussion, but had thought it right this time to come to London, as the Chancellor had so far done all the travelling.

Community Budget

2. Herr Matthofer then referred to the refunds claimed by the UK under the 30 May Agreement, an agreement about which he had from the start been sceptical. Its terms were asymmetrical: they laid down the procedure to be followed if the UK's net contribution proved unexpectedly high, but no similar procedure for use if it proved unexpectedly low, as it in fact had. Could one not apply the former procedure to the latter case? Certainly the UK could not expect simply to sit tight, and enjoy a 900 million ecu windfall for the 2 years 1980 and 1981. The Chancellor



said that the agreement was not of our devising; indeed we had argued strongly against it. We had wanted a deal that set the size of our net contributions, not one cast in terms of net refunds. The agreement had worked to our advantage, and even more to France's advantage: the French would be 1000 million ecu better off over the same 2 years than had been expected in May 1980. But one could not now re-write history: the Agreement stood, and all parties were bound by it. And it would be hard to argue on grounds of relative wealth that the UK's net contributions, if any, should be large. But the episode illustrated the urgency of devising firm and rational arrangements for the future.

3. Herr Matthofer said that he had studied the scheme which the Chancellor had mentioned in Bonn on 18 November. It produced a zero UK net contribution. This was not acceptable to the FRG, who were not prepared to be the Community's only substantial contributor. The Chancellor said that we had noted this point in Bonn: we were now prepared to envisage the UK's remaining a small net contributor. Our scheme had accordingly been revised.

4. The new variant rested on 3 principles:

a. That the FRG's present share was approximately right, and should not be further increased: it should be limited in future to 15 per cent of total allocated Budget appropriations; and

b. that relative wealth, and population, must - as Chancellor Schmidt had said - be taken into account when appropriate proportionate contributions were assessed; that the shares of other countries with per capita GDP above 90 per cent of the Community average should accordingly be limited to a percentage of the German share; and

c. that when an individual country's limit was threatened, the potential excess should be divided among other countries pro rata with the headroom still existing against their



individual limits.

The Chancellor and Sir Kenneth Couzens gave Herr Matthofer a note - copy at Annex - on how this might work, and took him through some illustrative tables. They explained that we had not so far put on proposal to any of our other partners.

5. Herr Matthofer undertook to consider the scheme: he thought it an improvement on the original UK proposal. Dr Heck might probe the details with Sir K Couzens. He himself saw no difficulty in the FRG's remaining a net contributor, provided that their contribution was indeed subject to a limit. But his main concern was that the scheme would do nothing to secure the introduction of proper budgetary control: indeed the effect might be perverse, since the FRG might lose the UK's support in arguing for a rational system of Budget-making. Sir Kenneth Couzens said that this was an unreal worry, our concern was well known, and would remain. And by obliging countries other than the FRG and the UK to swallow potential excesses against the FRG's and the UK's net contributions, a scheme along the lines we had in mind would greatly increase the number of countries with a real interest in controlling the size of the Budget.

6. The Chancellor said that we were not attracted by the Commission's scheme. Herr Matthofer said that it had some attractions for him: assistance to the UK was limited to a 4 year period; the German contribution to UK refunds would be limited to 25 per cent; and the scheme had an element of degressivity. But it was nevertheless totally unacceptable, because of the proposal to create a new financing system under Article 200. To allow this would be to open Pandora's box. Article 200 was over-taken, dead and buried: it must not be resurrected. The Chancellor said that we were aware of the point; and we were unhappy with other elements (e.g. degressivity) which Herr Matthofer found acceptable.



7. In a brief discussion of the disagreement between the Council and the European Parliament over the 1982 Budget, Herr Matthofer argued that the Council should take the matter to the European Court without delay; and the Chancellor suggested that an early Council discussion might be appropriate.

The FRG Economy

8. Herr Matthofer said he had just completed, and handed to Count Lambsdorff, a new plan for:-

- a. increases in VAT on oil and gasoline, to raise DM 10 billion.
- b. The introduction of a tax on natural gas, designed to raise DM 10 billion.
- c. New spending of DM 10 billion on investment which would produce savings in the consumption of oil and gas, for example district heating systems.

Matthofer reminded the Chancellor that German energy prices were low: the price of gasoline was the lowest in Europe except for Luxembourg. If consumption could be reduced this would save imports.

9. Looking at employment prospects, Herr Matthofer said that the number of people seeking jobs was being swollen by the maturing of the "baby-boom" generation and by greater propensity for women to seek employment. To reduce the level of unemployment from its present level of 1.7 million to 1.3 million, Germany would need to create 600,000 jobs between now and 1986. To get back to the old German standard of full employment the nation would have to create 2 million additional jobs.



10. Herr Matthofer forecast economic growth of 1 - 1.5 per cent in 1982. The inflation rate would decline to 4 - 4.5 per cent. Productivity would increase faster relative to production. The trade unions were prepared to take cuts in real wages. This was demonstrated by the fact that their opening position in the new round of wage bargaining negotiations had been that the real value of wages must be maintained: clearly they were prepared to settle for something less. The prospect of rising unemployment would "create panic" in Germany.

International Appointments

11. Herr Matthofer mentioned the German candidate, Frau Steeg, for the post of Secretary General of OECD. The appointment of a woman would be popular. The Chancellor mentioned Sig. Pandolfi's candidacy, and ministerial experience. He seemed a stronger candidate. Herr Matthofer thought that he might not be in office long at OECD: he might be required for a government post in Rome. Mr Garside mentioned that Pandolfi had in fact given assurances that if appointed he would serve a full term at OECD.

12. Herr Matthofer said that it was time that the post of President of the European Investment Bank should go to a German. The Chancellor and Sir Kenneth Couzens said that what was needed at EIB was a competent banker. It might be difficult for the Germans to secure both the OECD and EIB jobs, but if Pandolfi went to OECD and the Germans put forward for EIB a banker of proven experience and skill, the UK would be inclined to support him.

13. The meeting ended at 16.30 p.m.

A handwritten signature in dark ink, appearing to read 'J O Kerr'.

J O KERR

18 January 1982



Distribution:-

Chief Secretary
Financial Secretary
Economic Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Mr Littler
Mr Lavelle
Mr Carey
Mrs Hedley-Miller
Mr Edwards
Mr Ashford

PS/Foreign and Commonwealth
Secretary
PS/Lord Privy Seal
PS/Governor, Bank of England
Sir Jock Taylor: Bonn
Sir Michael Butler: UKREP
Sir Reginald Hibbert: Paris
Mr D J S Hancock: Cabinet Office
Mr A F Maddocks: UKdel OECD
Mr M Scholer: No 10

C. P. B. Budget

pl. put with the earlier paper.

A.S.C. 20/1



THE ENCLOSED SHOULD HAVE BEEN ATTACHED TO THE RECORD OF THE CHANCELLOR'S DISCUSSION WITH THE FEDERAL FINANCE MINISTER ON 14 JANUARY. CIRCULATED ON 18 JANUARY.

D. P. ARDEN
19/1/19.

CONTRIBUTIONS TO THE EUROPEAN COMMUNITY BUDGET

A LIMITS SCHEME

1. Under this scheme there would be a limit of 15% of total allocated Budget appropriations on the net contribution of the Federal Republic, as the most prosperous member state. "Total appropriations" for this purpose would exclude amounts paid to other countries (eg the UK) to give effect to limits for them. So the German limit on its share of the Budget including such payments would be less (eg 11%-12%).

2. No member state would be required to make a net contribution if its GDP per head were below 90% of Community average. This would correspond with the principle that a country narrowly below average GDP per head should contribute modestly, if at all.

3. Community statistics suggest that by comparison with average Community GDP per head member countries can be grouped broadly as follows :

Germany	125%
Denmark	
France	
Belgium	115%
Netherlands	
Luxembourg	
UK	92.5%
Other member countries	Below 90%

4. So the range for net contributors covers a maximum of 35 points difference, from 125-90%. If 90% is the threshold for making any net contribution, there is a margin for the countries named of 35, 25 or $2\frac{1}{2}$ points. These margins of relative prosperity, used together with population size, yield limits for the contributions of the countries above 90%. For example the UK limit per head of the population would be about 7% of the German limit. This is because $2\frac{1}{2}$ is about 7% of 35. Adjusting for population, the UK limit would be just over 6% of the German limit.

5. If the limit for any member state or states was exceeded in practice, other member states would make up the difference. Having established the contribution limits taking into account relative prosperity and population size, the corrective payments would be equitably shared out by reference to actual "headroom" within the limits. This should ensure that Germany would contribute more modestly than under the 30 May 1980 arrangements to these corrective payments.



Distribution:-

Chief Secretary
Financial Secretary
Economic Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Mr Littler
Mr Lavelle
Mr Carey
Mrs Hedley-Miller
Mr Edwards
Mr Ashford

PS/Foreign and Commonwealth
Secretary
PS/Lord Privy Seal
PS/Governor, Bank of England
Sir Jock Taylor: Bonn
Sir Michael Butler: UKREP
Sir Reginald Hibbert: Paris
Mr D J S Hancock: Cabinet Office
Mr A F Maddocks: UKdel OECD
Mr M Scholer: No 10

CONFIDENTIAL*Brian Pd*

15 January, 1982

Community Budget

The Prime Minister has seen the Chancellor's minute of 12 January and the Foreign and Commonwealth Secretary's minute of 14 January. She has noted their contents, pending possible discussion in OD.

I am sending a copy of this letter to Brian Fall (FCO) and David Wright (Cabinet Office).

A. J. COLES

John Kerr, Esq
HM Treasury

CONFIDENTIAL*CP*

CONFIDENTIAL

15 January, 1982

The 30 May 1980 Mandate: Next Steps

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 13 January and the minute of the same date by the Chancellor of the Exchequer. She has noted their contents.

I am sending a copy of this letter to John Kerr (HM Treasury), Kate Timms (MAFF) and David Wright (Cabinet Office).

A. U. COLES

B Fall, Esq
Foreign and Commonwealth Office

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P



FCS/82/7

CHANCELLOR OF THE EXCHEQUER

30 May Mandate

1. Thank you for your minute of 12 January. I agree that we shall need to discuss our tactics over the budget after the informal meeting of Foreign Ministers later this week. The German reaction to our ideas is clearly an important consideration, and I agree that you should have another go at Matthoefer on 14 January. I am not however optimistic about his reaction, and as you know, I continue to doubt very much whether putting forward a British scheme, particularly without support from the Germans, would be an effective way of attaining our objectives.

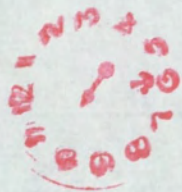
2. I am sending copies of this minute to the Prime Minister and to Sir Robert Armstrong.

C
/

(CARRINGTON)

Foreign and Commonwealth Office
14 January 1982

14 JAN 1982



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Prime Minister

To note, pending a discussion in OD.

A.P.C. $\frac{14}{1}$

Ref. A07139

MR. COLES

The 30th May Mandate: Chancellor of the Exchequer's Minute of 12th January

TPM The Chancellor's minute to the Foreign and Commonwealth Secretary of 12th January describes his anxieties about the scheme that the Commission have in mind as a basis for a solution to the United Kingdom budget problem. To achieve a result acceptable to the Government, the scheme would have to be interpreted in a remarkably favourable way from our point of view and to be accompanied by an improved financial mechanism. The Chancellor is seeing Herr Matthoeffer, the German Finance Minister, tomorrow and plans to discuss with him a revised version of the Treasury scheme which the Prime Minister agreed in November should be sent to the Germans in the hope that the Federal Chancellor would respond positively to it at the Bonn Summit. In fact neither he nor Herr Genscher nor Herr Matthoeffer did offer their support and in Herr Matthoeffer's case the Chancellor believes that he may not even have understood it.

2. The new scheme is intended to be more attractive to the Germans than the one we showed them in November but at the same time to provide a more secure basis for negotiating an acceptable solution than the Commission scheme. Because the Germans, and others, have reacted so sharply against the suggestion implicit in earlier Treasury schemes that the United Kingdom ought in principle to make a net contribution of zero to the allocated Community budget, the new scheme provides an objective basis for a net contribution of 150 million ECU in respect of the 1981 budget on the basis of the latest estimates available.

3. It produces this result by taking 90 per cent of average GDP per head as the threshold for making any net contribution instead of average GDP as in earlier Treasury schemes. The member states are then arranged in groups according to relative prosperity and a system of limits worked out for the maximum net contributions that they should make. The actual limits proposed, as shown in column 4 of the table attached to the Chancellor's minute, are all derived from a proposition that Germany's limit should not exceed 15 per cent of the Community budget.

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4. The resulting pattern of net contributions and benefits is shown in column 6 of the table. The rich beneficiaries do less well than at present but they all, even France, remain net beneficiaries. Germany's net contribution is controlled but Germany remains by far the largest net contributor. If the scheme were approved it would - in combination with the 1 per cent VAT ceiling - keep the United Kingdom net contribution small over the years ahead; and this, of course, is the attraction that the Chancellor sees in it.

5. The Chancellor proposes that he and Lord Carrington should discuss Herr Matthoeffler's reaction to this new scheme next week taking account also of the outcome of the informal meeting of Foreign Ministers. When they have had their discussion, the Prime Minister might think it useful to convene a meeting of OD to review progress on the mandate and to settle the United Kingdom's tactics for the next phase of the negotiations, including the question whether the revised Treasury scheme be tabled in Brussels. Meanwhile she may feel that there is no need for her to intervene at this stage in the exchanges between the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

REA

ROBERT ARMSTRONG

13th January, 1982

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Ref. A07138

PRIME MINISTER

Cabinet: Community Affairs

Since this point was mentioned the last time the Cabinet met on 17th December, you might wish the Chancellor of the Exchequer to report on the outcome of the 21st December Budget Council. A new dispute with the European Parliament has arisen following the latter's formal adoption of a 1982 Community budget on a basis which represents a direct challenge to the authority of the Council. Treasury Ministers are considering how best to react in the light of the legal position and the attitudes of our partners.

2. The Secretary of State for Industry might report on the informal meeting of Industry Ministers on 13th January, at which the main items under discussion will have been the Community's steel regime and the growing threat to Community steel exports from the anti-dumping suits recently filed by a number of American steel companies.

3. The Foreign and Commonwealth Secretary may wish to inform the Cabinet, in advance of the 14th-15th January informal Foreign Ministers meeting, of Monsieur Thorn's new proposals for guidelines on the four outstanding mandate points: milk, Mediterranean agriculture, agricultural expenditure and the budget (on which Lord Carrington intends to minute you today).

4. Next week the Agriculture Council meets on 18th-19th January. OD(E) will meet before Cabinet on 21st January to settle the United Kingdom line on ACP sugar before the January Foreign Affairs Council and the Joint EC/ACP Council later this month.

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ROBERT ARMSTRONG

13th January, 1982

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PM/82/3

PRIME MINISTER

The 30 May 1980 Mandate: Next Steps

1. You will wish to know where matters stand on the mandate, which is next due to be discussed at the informal meeting of Foreign Ministers on 14/15 January. As requested by the last such meeting in December, M Thorn has now produced proposals for revised draft guidelines on the four outstanding points: milk, Mediterranean agriculture, CAP expenditure and the budget. I attach a consolidated text of the draft guidelines at Annex A; and the full text of the rather long and discursive letter in which M Thorn explains why his draft says what it does at Annex B.

2. This minute describes the main features of M Thorn's proposals and the approach I propose to take towards them at the informal Foreign Minister's meeting. I understand that both the Chancellor of the Exchequer and the Minister of Agriculture have been consulted on the briefing, which has been prepared by officials under Cabinet Office chairmanship, and that they are content with the approach described below.

3. M Thorn's proposals do not as they stand offer a basis for agreement. From the United Kingdom viewpoint they are in many respects unsatisfactory, though they also contain some helpful features on which we can build. The position on each of the four main heads is set out below.

Milk

4. M Thorn's proposals go too far in committing the Council to a progressive mechanism for applying the milk coresponsibility levy in order to help small producers while failing to provide a firm commitment to specific measures to discourage surplus production.

/5. I shall



5. I shall argue that we should agree on a less specific but balanced text such as was put to Foreign Ministers in December by the Presidency and Commission (Annex C) and which would leave the Council to take the specific decisions. The Dutch and Danes are likely to support our criticisms.

Mediterranean agriculture

6. The proposed text is not unsatisfactory. It speaks of the need to take account of improving the functioning of the market organisation for the sake of efficient and economic management as well as for producers. I shall counter efforts by Italy and Greece to make the text more favourable to their producers and be ready to agree it in the context of an overall agreement.

Agricultural Expenditure

7. The text proposed consists of the German formula on the rate of growth of agricultural expenditure proposed at the European Council plus a declaration concerning its implementation suggested by the Commission. It has some weaknesses and I shall support any efforts, by the Germans for example, to tighten it up. But even in its present form, it would if adopted certainly help to constrain the Council and Commission when taking decisions affecting the rate of growth of agricultural expenditure and I shall be ready to accept it.

Budget

8. M Thorn's text on the budget has the following features compared to the four essential requirements which we agreed to press for at the last Foreign Ministers' meeting: -

- a) there is a clear reference to preventing the recurrence of unacceptable situations;
- b) general application. Although paragraph 2 picks out the UK specifically to receive compensation, this is explained as a consequence of the general statements

/in paragraph 1



- in paragraph 1 which include the need to prevent unacceptable situations for any Member State;
- c) the text clearly says that the corrective arrangement should be based on an objective indicator but it does not specify relative prosperity for this purpose. It proposes the Commission's own FEOGA mechanism as the objective indicator;
 - d) on duration it specifies four years with a review after three. It does not include a statement of the aims of the review. (As you know, we proposed a review after seven years.)

In addition, it includes: -

- e) an unacceptable form of words on degressivity;
- f) no mention of the financial mechanism; and
- g) it says that compensation should be paid "when final figures are available". This would mean - possibly inadvertently - an eighteen month delay, since the Commission does not produce its final accounts for expenditure in a given year until June in the next but one year.

9. I propose to make it clear from the start that the text is not acceptable as it stands and to seek amendments sufficient to protect our position on our four essential requirements.

10. It might be possible to amend suitably, or have deleted, the unacceptable references in the Commission text on duration, degressivity (on which the Germans may suggest a helpful formula whereby lower budget refund payments were matched by increasing payments under other programmes), objective criteria (where I would insist on the Commission's scheme being supplemented by an improved financial mechanism, with relative prosperity included as an objective indicator, or have the whole of the

/passage



passage deleted) and the timing of payments (where I would agree to payments being calculated ex post facto but leave the precise pattern of payments to be negotiated subsequently). However, I am not optimistic that we shall be able to get agreement to such changes.

11. In sum, M Thorn's proposals on milk and the budget are loaded against the United Kingdom and we cannot accept them as they stand. While I shall therefore insist on changes, I cannot be optimistic about the prospects for agreement at this meeting. We may therefore be obliged, as at the European Council and the December meeting, to seek a purely procedural decision which will keep up the momentum of the negotiations without commitment on substantive points. I suggest that we take stock of the position again when the outcome of the meeting is known.

12. I am copying this minute to the Chancellor of the Exchequer and the Minister of Agriculture and to Sir Robert Armstrong.

C
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(CARRINGTON)

13.1.82.

THORN'S DRAFT GUIDELINESMILK PRODUCTS

The guarantee in the milk sector should be adapted: the present co-responsibility levy can be retained but modulated in such a way that deliveries below a certain level qualify for a reduced rate. This modulation should be arranged so that all producers are liable, although existing total exemptions will continue to apply. The reduced rate of levy will be fixed for tranches of milk delivered.

At the same time the European Council agrees that should the increase in milk deliveries from one marketing year to the next exceed a certain rate (to be determined by the Council), the Council will take appropriate steps to offset the additional costs this entails (for example, a levy on the increased production, partial suspension of intervention, alteration of the intervention price, application of a progressive basic levy, or some other appropriate means).

MEDITERRANEAN AGRICULTURE

In view of the importance of Mediterranean agricultural products for the development of the Mediterranean regions, the European Council is agreed on the urgent need to review the existing regulations, particularly, though not exclusively, those for wine, fruit and vegetables and olive oil.

It calls on the Council to adopt the appropriate decisions very quickly, with account being taken of the need to improve the functioning of the market organizations both for producers and for the sake of efficient and economic management. With regard to the proposals already presented by the Commission, the decisions will have to be taken by 31 March 1982 at the latest.

BUDGETARY ASPECTS OF THE COMMON AGRICULTURAL POLICY

It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions on implementation of the above guidelines to ensure that the rate of growth of agricultural expenditure will rise less rapidly than the Community's own resources. It will be the responsibility of the Council and the Commission to manage agricultural expenditure within that framework.

The implementation of these guidelines should be evaluated as an average over several years in the case of erratic development of the conditions under which the Common Agricultural Policy is executed.

BUDGET

1. On 30 May 1980 the Council requested the Commission to examine the development of Community policies, in particular with a view to preventing the recurrence of unacceptable situations for any of the member states. The European Council considered the Community's budget situation on the basis of the report drawn up by the Commission pursuant to the Mandate of 30 May 1980. It recognized the need to seek a better balance between Community policies in order to create a sound basis for the further development of the Community. It considered that its conclusions on the development of Community policies and the adjustment of the Common Agricultural Policy were the first major steps in this direction, but it recognized that the measures currently being prepared would not have any appreciable effect for some time.

2. Accordingly the European Council adopted the principle of measures to grant the United Kingdom financial compensation, to come into force from the 1982 financial year. They will apply for four years and will involve some kind of declining scale. They will be reviewed after three years. They will not affect the Community's financial system.

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3. The amount of compensation will be determined each year, when final figures are available, in the light of the real size of the problem, as measured by an objective indicator, and on the basis of the rate of compensation agreed. With this method there will be no need for fresh negotiation each year.

The objective indicator may be based on the difference between the United Kingdom's share of gross Community product (calculated as the average of several years) and the United Kingdom's share of payments from the EAGGF guarantee section in the year in question.

4. The compensation for the United Kingdom will be entered in the budget. As an exceptional and temporary measure, the corresponding revenue will be provided by contributions from the member states under Article 200 EEC, determined on a special (political) scale which will be adopted by the Council, acting unanimously in accordance with Article 200 (3).

The scale will respect the principle of solidarity, which the Community intends to apply with regard to its least prosperous members, and will take account of Germany's problem concerning the Community budget (Germany will pay a distinctly smaller contribution than its normal share would have been).

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LUXEMBOURG ATHENS

30 MAY MANDATE

FOLLOWING IS TEXT OF LETTER FROM THORN TO YOU, DATED 8 JANUARY:

BEGINS

MY LORD,

ON 15 DECEMBER YOU ASKED ME TO SUBMIT TO YOU, WITH RESPECT TO THE POINTS STILL OUTSTANDING IN OUR WORK ON THE MANDATE OF 30 MAY, PROPOSALS CAPABLE OF PRODUCING AN OVERALL SOLUTION.

THE PROPOSALS I NOW SUBMIT ARE A FOLLOW-UP TO THE DISCUSSIONS WE HAD IN LONDON ON 14 AND 15 DECEMBER. I HAVE PREPARED THEM WHILST BEARING IN MIND THE GENERAL THRUST OF THE WORK SO FAR CARRIED OUT ON THE MANDATE AND THE ANXIETY THAT WE ALL FEEL TO CREATE THE CONDITIONS FOR NEW PROGRESS IN THE COMMUNITY.

I REGARD IT AS BOTH URGENT AND ESSENTIAL TO BRING MATTERS TO A SUCCESSFUL CONCLUSION AT OUR NEXT MEETING. WE MUST TAKE THIS OPPORTUNITY TO COMPLETE WHAT IS A VITAL COMPONENT FOR THE DEVELOPMENT OF THE COMMUNITY. SUCCESS IN OUR COMING MEETINGS WILL, IN ADDITION, ALLOW US TO CONFIRM THE RESULTS EARLIER ACHIEVED IN OTHER FIELDS AND GIVE EFFECT TO THE GLOBAL APPROACH THAT WE HAVE ADOPTED FROM THE OUTSET. FAILURE TO TAKE THIS OPPORTUNITY WOULD, GIVEN THE PRESENT POLITICAL AND ECONOMIC BACKGROUND AND THE MAJOR DEADLINES THAT WE FACE, LEAD TO TENSIONS WHICH THE COMMUNITY MUST AT ALL COSTS AVOID.

I AM SENDING YOU THE DOCUMENTS IN GOOD TIME SO THAT YOU CAN CONDUCT YOUR PREPARATION IN THE BEST POSSIBLE CONDITIONS. I AM AT YOUR DISPOSAL IN THE DAYS BETWEEN NOW AND THE MEETING TO GIVE YOU FURTHER PARTICULARS.

I MUST ALSO DRAW YOUR ATTENTION TO THE POINTS OF CONCERN VOICED BY THE PRIME MINISTER AND FOREIGN MINISTER OF GREECE WITH REGARD TO THE SITUATION OF THEIR COUNTRY. THE GREEK GOVERNMENT HAS NOT YET FINISHED STUDYING THE DESIDERATA IT INTENDS TO LAY BEFORE US, AND NOT HAVING HAD WORD OF THESE WE HAVE NOT BEEN ABLE TO PRO-
NOUNCE ON THE SUBJECT.

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/FINALLY

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FINALLY, I WOULD STRESS THAT THE GUIDELINES PROPOSED ARE IN ACCORDANCE WITH THE SPIRIT OF THE PROPOSALS PUT FORWARD BY THE COMMISSION THROUGHOUT THE PROCEEDINGS FOLLOWING THE MANDATE OF 30 MAY.

YOURS FAITHFULLY,

GASTON E. THORN

ANNEX

BRUSSELS, 8 JANUARY 1982

AT THE END OF THEIR MEETING ON 15 DECEMBER LAST, THE FOREIGN MINISTERS ASKED THE PRESIDENT OF THE COMMISSION TO REVISE THE PROPOSED GUIDELINES FOR SETTLING THE FOUR ISSUES REFERRED TO THEM BY THE EUROPEAN COUNCIL (MILK PRODUCTS, MEDITERRANEAN PRODUCTS, BUDGETARY ASPECTS OF THE COMMON AGRICULTURAL POLICY, AND BUDGETARY MATTERS IN GENERAL).

IN THIS PAPER I HAVE, OF COURSE, CONFINED MYSELF TO THESE FOUR ISSUES, TAKING MY CUE FROM THE VERY FULL DISCUSSIONS WE HAD IN DECEMBER. I WOULD POINT OUT, HOWEVER, THAT, EVEN WHEN AGREEMENT IS REACHED ON THESE FOUR ISSUES, THERE WILL STILL BE ONE OR TWO PROBLEMS OUTSTANDING. AS INDICATED IN THE REPORT BY THE SECRETARY-GENERAL OF THE COUNCIL, THESE ARE THE TEXT ON CEREALS, ARRANGEMENTS FOR PRODUCTS OTHER THAN CEREALS AND MILK, AND THE PASSAGE ABOUT NATIONAL AIDS IN AGRICULTURE, WHICH WAS NOT FULLY DISCUSSED AT THE EUROPEAN COUNCIL.

1. MILK PRODUCTS

1. LENGTHY DISCUSSIONS AT THE EUROPEAN COUNCIL AND OUR SUBSEQUENT MEETING IN LONDON HIGHLIGHTED TWO MAJOR PREOCCUPATIONS:

- ACTION TO BE TAKEN IN THE EVENT OF A SHARP INCREASE IN MILK PRODUCTION (THE POSSIBILITY OF A MECHANISM TO DISSUADE PRODUCERS);
- THE PROBLEM OF SMALL PRODUCERS.

AGREEMENT IS CONDITIONAL ON A COMPREHENSIVE DECISION PROVIDING SATISFACTORY SOLUTIONS ON BOTH POINTS.

2. IN THE FIRST PLACE, I FEEL I AM RIGHT IN SAYING THAT WE ARE LARGELY IN AGREEMENT ON THE NEED TO RETAIN THE PRESENT CO-RESPONSIBILITY LEVY, TOGETHER WITH THE EXISTING EXEMPTIONS.

3. SECONDLY, I COULD SEE THAT EVERYONE WAS CONCERNED ABOUT THE POSSIBILITY OF AN EXCESSIVE INCREASE IN MILK PRODUCTION. THERE MAY WELL BE STRONG OPPOSITION FROM SOME OF US TO PRODUCTION LEVELS BEING TAKEN INTO ACCOUNT. BUT WE ALL RECOGNIZE THAT BEYOND A CERTAIN RATE OF INCREASE DISINCENTIVES WILL BE NECESSARY. THE EUROPEAN COUNCIL SHOULD ENDORSE THIS LINE AND ISSUE A FIRM DIRECTIVE ON THIS BASIS TO GUIDE FORTHCOMING DISCUSSIONS IN THE AGRICULTURAL COUNCIL.

IDEALLY, THIS DIRECTIVE SHOULD GIVE A PRECISE INDICATION OF THE TYPE OF MEASURES THAT MIGHT BE ENVISAGED. BUT OUR DISCUSSIONS TO DATE HAVE CONVINCED ME THAT WE ARE NOT IN A POSITION TO DECIDE. ADDED TO WHICH, IT IS NOT AT ALL CERTAIN THAT ANY SIGNIFICANT DIFFICULTIES WILL ARISE DURING THE CURRENT MARKETING YEAR.

I WOULD THEREFORE SUGGEST THAT THE EUROPEAN COUNCIL ADOPT A DIRECTIVE SETTING A PRECISE OBJECTIVE FOR THE AGRICULTURAL COUNCIL BUT LEAVING THE MINISTERS FREE TO WORK OUT WAYS AND MEANS. TO MY MIND THE RESOLUTION ADOPTED BY THE AGRICULTURAL COUNCIL ON 31 MARCH 1981 AS PART OF THE 1981/82 PRICE PACKAGE WOULD PROVIDE AN EXCELLENT BASIS FOR THIS DIRECTIVE. INDEED MY PROPOSED TEXT IS BASED ON THAT RESOLUTION. ACCEPTANCE AND ENDORSEMENT OF THE RESOLUTION BY THE EUROPEAN COUNCIL WOULD ENHANCE ITS VALUE AND GIVE IT THE AUTHORITY NEEDED TO GUARANTEE IMPLEMENTATION IN PRACTICE.

4. AS FAR AS SMALL PRODUCERS ARE CONCERNED, THE COMMISSION RECOGNIZES THAT THERE IS A GENUINE PROBLEM. THIS STEMS IN PART FROM THE PRUDENT PRICE POLICY PURSUED BY THE COUNCIL IN RECENT YEARS AT THE COMMISSION'S INSTIGATION. THE PROBLEM COULD WELL BE AGGRAVATED BY THE INTRODUCTION OF DISINCENTIVES.

IT SEEMS TO ME THEREFORE THAT WE MUST MEET THE OBJECTIONS PUT SO FORCEFULLY BY A NUMBER OF OUR COLLEAGUES. BEARING IN MIND THE VARIOUS SUGGESTIONS PUT FORWARD (BY OUR GERMAN COLLEAGUE IN PARTICULAR), I HAVE CONSIDERED THE POSSIBILITY OF A MECHANISM WHICH, WHILE ALLAYING THE CONCERN VOICED BY SOME OF YOU, WOULD DRAW ON EXPERIENCE GAINED IN APPLYING EXISTING MEASURES, WOULD RULE OUT ALL DISCRIMINATION AND WOULD BE REASONABLY PROGRESSIVE. I THEREFORE SUGGEST THAT WE ABANDON TOTAL EXEMPTION FROM THE CO-RESPONSIBILITY LEVY FOR THE FIRST TRANCHE OF PRODUCTION AND ALLOW ALL PRODUCERS A PARTIAL REDUCTION AS IS ALREADY THE CASE FOR PRODUCERS IN LESS-FAVoured AREAS.

THIS REDUCTION WOULD APPLY BY TRANCES OF PRODUCTION TO MAKE IT PROGRESSIVE. FOR INSTANCE WE MIGHT CONSIDER - THOUGH THIS IS NOT A FORMAL PROPOSAL - REDUCING THE CO-RESPONSIBILITY LEVY TO 1 PER CENT FOR THE FIRST 30 000 KG AND 2 PER CENT FOR PRODUCTION BETWEEN 30 000 AND 60 000 KG (THE LIMIT NOW APPLICABLE IN LESS-FAVoured AREAS), WITH THE FULL 2.5 PER CENT LEVY APPLYING TO PRODUCTION IN EXCESS OF 60 000 KG.

THE GUARANTEE IN THE MILK SECTOR SHOULD BE ADAPTED; THE PRESENT CO-RESPONSIBILITY LEVY CAN BE RETAINED BUT MODULATED IN SUCH A WAY THAT DELIVERIES BELOW A CERTAIN LEVEL QUALIFY FOR A REDUCED RATE. THIS MODULATION SHOULD BE ARRANGED SO THAT ALL PRODUCERS ARE LIABLE, ALTHOUGH EXISTING TOTAL EXEMPTIONS WILL CONTINUE TO APPLY. THE REDUCED RATE OF LEVY WILL BE FIXED FOR TRANCHES OF MILK DELIVERED.

AT THE SAME TIME THE EUROPEAN COUNCIL AGREES THAT SHOULD THE INCREASE IN MILK DELIVERIES FROM ONE MARKETING YEAR TO THE NEXT EXCEED A CERTAIN RATE (TO BE DETERMINED BY THE COUNCIL), THE COUNCIL WILL TAKE APPROPRIATE STEPS TO OFFSET THE ADDITIONAL COSTS THIS ENTAILS (FOR EXAMPLE, A LEVY ON THE INCREASED PRODUCTION, PARTIAL SUSPENSION OF INTERVENTION, ALTERATION OF THE INTERVENTION PRICE, APPLICATION OF A PROGRESSIVE BASIC LEVY, OR SOME OTHER APPROPRIATE MEANS).

II. MEDITERRANEAN AGRICULTURE

CONCERN HAS BEEN EXPRESSED ON A WIDE VARIETY OF POINTS DURING OUR WORK. WE ALL AGREE THAT A DECISION MUST BE QUICKLY REACHED AFTER A REVIEW OF THE REGULATIONS ON MEDITERRANEAN PRODUCTS. WE HAVE NOTED THAT THIS MUST COVER THE THREE MAJOR PRODUCTS, BUT THAT THERE ARE ALSO SOME SPECIFIC PROBLEMS, NOTABLY FOR THE NEW MEMBER STATE, GREECE.

I THINK IT RIGHT THAT WE SHOULD STATE QUITE CATEGORICALLY THAT WE WANT TO IMPROVE THESE REGULATIONS FOR THE BENEFIT OF THE PRODUCERS. IT IS EQUALLY RIGHT, AND NOT CONTRADICTORY, THAT WE SHOULD STRIVE FOR MORE EFFICIENT MANAGEMENT OF THE MARKET ORGANIZATIONS, SO AS TO ENSURE THAT THE FUNDS ALLOCATED TO THEM ARE USED TO GOOD EFFECT.

I WOULD THEREFORE SUGGEST THE FOLLOWING TEXT, FROM WHICH I HAVE DELIBERATELY EXCLUDED ALL TECHNICAL DETAIL, ESPECIALLY SINCE THE WORK ON THE COMMISSION'S PROPOSALS HAS BARELY BEGUN.

OUR FRENCH COLLEAGUE HAS URGED THAT REFERENCE BE MADE IN THE TEXT TO THE PROBLEMS CONCERNING IMPORTS OF VEGETABLE OIL (IN CONNECTION WITH THE PRODUCTION OF OLIVE OIL).

I WOULD REMIND YOU THAT ONE OF THE GUIDELINES SUBMITTED TO THE EUROPEAN COUNCIL CONCERNS THE POLICY FOR IMPORTS OF AGRICULTURAL PRODUCTS IN THE LIGHT OF COMMUNITY PREFERENCE. IT IS ALREADY EXPRESSLY STATED THAT THIS POLICY COVERS MEDITERRANEAN PRODUCTS. THE PROBLEMS CONCERNING IMPORTS OF VEGETABLE OIL SHOULD BE DEALT WITH IN THIS FRAMEWORK.

DRAFT TEXT

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IN VIEW OF THE IMPORTANCE OF MEDITERRANEAN AGRICULTURAL PRODUCTS FOR THE DEVELOPMENT OF THE MEDITERRANEAN REGIONS, THE EUROPEAN COUNCIL IS AGREED ON THE URGENT NEED TO REVIEW THE EXISTING REGULATIONS, PARTICULARLY, THOUGH NOT EXCLUSIVELY, THOSE FOR WINE, FRUIT AND VEGETABLES AND OLIVE OIL.

IT CALLS ON THE COUNCIL TO ADOPT THE APPROPRIATE DECISIONS VERY QUICKLY, WITH ACCOUNT BEING TAKEN OF THE NEED TO IMPROVE THE FUNCTIONING OF THE MARKET ORGANIZATIONS BOTH FOR PRODUCERS AND FOR THE SAKE OF EFFICIENT AND ECONOMIC MANAGEMENT. WITH REGARD TO THE PROPOSALS ALREADY PRESENTED BY THE COMMISSION, THE DECISIONS WILL HAVE TO BE TAKEN BY 31 MARCH 1982 AT THE LATEST.

III. BUDGETARY ASPECTS OF THE COMMON AGRICULTURAL POLICY

THE TEXT I PROPOSE REFLECTS THE VIEWS OF A LARGE MAJORITY OF MY COLLEAGUES. IT CONTAINS ALL THE GUIDELINES WHICH THE EUROPEAN COUNCIL WILL HAVE TO ISSUE FOR AGRICULTURAL POLICY, INCLUDING A DIRECTIVE ON MEDITERRANEAN PRODUCTS. THE COST OF THE NEW MEASURES TO BE TAKEN FOR THESE PRODUCTS IS THEREFORE COVERED BY THIS TEXT.

THE IMPACT OF ITS ADOPTION BY THE EUROPEAN COUNCIL WILL BE PRIMARILY POLITICAL; IT IS NOT A LEGAL INSTRUMENT AFFECTING THE RULES GOVERNING THE COMMON AGRICULTURAL POLICY. THE COMMISSION BELIEVES THAT THE IMPLEMENTATION OF THE POLICY GUIDELINES CURRENTLY BEFORE THE EUROPEAN COUNCIL WILL HELP TO REDUCE THE GROWTH OF AGRICULTURAL EXPENDITURE. THE COUNCIL AND COMMISSION WOULD THUS BE ABLE TO ACHIEVE THE POLITICAL OBJECTIVE SET THEM BY THE EUROPEAN COUNCIL WITHOUT UNDERMINING THE PRINCIPLES AND RULES OF THE COMMON AGRICULTURAL POLICY.

DRAFT TEXT

IT WILL BE THE RESPONSIBILITY OF THE COUNCIL, ACTING ON PROPOSALS BY THE COMMISSION, TO ADOPT THE NECESSARY DECISIONS ON IMPLEMENTATION OF THE ABOVE GUIDELINES TO ENSURE THAT THE RATE OF GROWTH OF AGRICULTURAL EXPENDITURE WILL RISE LESS RAPIDLY THAN THE COMMUNITY'S OWN RESOURCES. IT WILL BE THE RESPONSIBILITY OF THE COUNCIL AND THE COMMISSION TO MANAGE AGRICULTURAL EXPENDITURE WITHIN THAT FRAMEWORK.

THE IMPLEMENTATION OF THESE GUIDELINES SHOULD BE EVALUATED AS AN AVERAGE OVER SEVERAL YEARS IN THE CASE OF ERRATIC DEVELOPMENT OF THE CONDITIONS UNDER WHICH THE COMMON AGRICULTURAL POLICY IS EXECUTED.

IV. BUDGET

1. OUR MEETING ON 14 AND 15 DECEMBER FOCUSED MAINLY ON THE UK PRESIDENCY'S PAPER OF 15 DECEMBER AND ON THE COMMISSION'S PAPER OF 26 NOVEMBER. I HAVE ENDEAVOURED IN MY REPORT TO REFLECT AS MANY AS POSSIBLE OF THE SUGGESTIONS PUT FORWARD DURING OUR DISCUSSIONS.

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2. AT THE MEETING BOTH OUR FRENCH COLLEAGUE AND OUR BELGIAN COLLEAGUE CAME UP WITH NEW PROPOSALS TO WHICH I HAVE GIVEN SPECIAL ATTENTION.

3. THE BELGIAN PROPOSAL IS TO COMPENSATE BOTH THE UNITED KINGDOM AND GERMANY BY INCLUDING SPECIAL APPROPRIATIONS IN THE COMMUNITY BUDGET TO FINANCE PROJECTS IN THE TWO COUNTRIES CONCERNED. THIS WAS THE PROCEDURE ADOPTED IN THE COMPROMISE OF 30 MAY 1980.

IF, AS THE COMMISSION WANTS, THE COMMUNITY ALSO INTENDS TO ENSURE THAT THE LEAST PROSPEROUS MEMBERS OF THE COMMUNITY (GREECE AND IRELAND IN PARTICULAR) BEAR ONLY A SMALL SHARE OF THE COSTS ENTAILED, A COMPLICATED SYSTEM OF PAYMENTS AND REIMBURSEMENTS INVOLVING A LARGE NUMBER OF MEMBER STATES WOULD HAVE TO BE WORKED OUT. A PROCEDURE OF THIS TYPE APPLIED ON SUCH A LARGE SCALE WOULD SERIOUSLY DISTORT THE OPERATION OF THE OWN RESOURCES SYSTEM.

A FURTHER DRAWBACK WOULD BE THE HEAVY BURDEN ON THE BUDGET. CALCULATIONS SHOW THAT TO OFFSET VARYING PROPORTIONS OF THE COSTS FALLING TO THE LEAST PROSPEROUS COUNTRIES AS WELL AS A SUBSTANTIAL PART OF THE GERMAN CONTRIBUTION, THE COMMUNITY BUDGET WOULD HAVE TO CARRY A SUM ALMOST DOUBLE THE NET AMOUNT THE UNITED KINGDOM ACTUALLY RECEIVED. THE RESULTING STRAIN ON THE BUDGET WOULD BE DIFFICULT TO BEAR AS LONG AS THE PRESENT 1 PER CENT VAT LIMIT IS MAINTAINED.

4. THE FRENCH PROPOSAL IS FOR A POLITICAL RULE THAT SUMS PAID OUT OF THE COMMUNITY BUDGET IN EACH NET CONTRIBUTOR STATE UNDER THE COMMON POLICIES SHOULD INCREASE MORE RAPIDLY THAN THAT STATE'S VAT CONTRIBUTIONS.

QUITE APART FROM THE FACT THAT THE CONCEPT OF "NET CONTRIBUTOR" IS NOT COMPATIBLE WITH COMMUNITY BUDGET LAW, THE RESULT OF SUCH A RULE WOULD BE TO INTRODUCE THE IDEA OF "FAIR RETURN" (AT LEAST FOR NET CONTRIBUTORS) INTO DISCUSSIONS ON ANY NEW POLICIES.

THIS APPROACH WOULD ALSO BE INCONSISTENT WITH THE PHILOSOPHY ADVOCATED IN THE FIRST CHAPTER OF THE MANDATE, NAMELY THAT THE MAJOR OPERATIONS FINANCED FROM THE COMMUNITY BUDGET SHOULD BENEFIT THE LEAST PROSPEROUS COUNTRIES, AND THUS BE PAID FOR BY THE RICHEST COUNTRIES, SOME OF WHICH ARE NET CONTRIBUTORS. I THEREFORE DO NOT SEE HOW WE COULD USE THIS FORMULA.

5. MY FIRST AMENDMENT TO THE COMMISSION'S INITIAL TEXT IS TO SPECIFY HOW LONG THE COMPENSATORY MEASURES FOR THE UNITED KINGDOM SHOULD LAST. MY FEELING IS THAT A FOUR-YEAR PERIOD IS WHAT MOST OF US WANT. A PERIOD OF THIS LENGTH, COMBINED WITH A REVIEW PROCEDURE AFTER THREE YEARS, WOULD SEEM TO GO MOST OF THE WAY TOWARDS SATISFYING THE UNITED KINGDOM.

MOST OF US ARE IN FAVOUR OF SUCH MEASURES BEING ON A DECLINING SCALE. THE BRITISH ARE NOT AGAINST THIS PRINCIPLE: WHAT THEY DO OBJECT TO IS THE AUTOMATIC APPLICATION. I SEE NO REASON WHY WE SHOULD NOT AGREE NOW THAT THERE BE SOME KIND OF DECLINING SCALE ELEMENT AND LEAVE THE PRACTICALITIES FOR LATER.

6. A NUMBER OF US HAVE REQUESTED THAT DETAILS BE GIVEN CONCERNING THE OBJECTIVE INDICATOR WHICH THE COMMISSION INTENDS TO USE TO CALCULATE THE AMOUNT OF UK COMPENSATION. I HAVE OPTED FOR THE FORMULA ADVOCATED IN OUR JUNE 1981 REPORT, BASED ON THE "EAGGF IMBALANCE", WHICH IS THE MAIN SOURCE OF THE UK PROBLEM. AS WE STRESSED IN OUR REPORT, THE NATURE AND STRUCTURE OF AGRICULTURAL PRODUCTION IN THE UK ARE SUCH THAT IT INEVITABLY OBTAINS LESS FINANCIAL BENEFIT FROM THE CAP THAN OTHER MEMBER COUNTRIES. THIS IS AN OBJECTIVE FACT, WHICH IS IN NO WAY AN INDICTMENT OF OUR AGRICULTURAL SYSTEM; IT IS THEREFORE QUITE REASONABLE TO TAKE IT INTO ACCOUNT EVEN ALTHOUGH UK REVENUE FROM THE EAGGF IS NOT THE SOLE YARDSTICK FOR ASSESSING THE ADVANTAGE DERIVED BY BRITISH AGRICULTURE FROM THE COMMON AGRICULTURAL POLICY.

AN ALTERNATIVE WOULD BE TO BASE THE OBJECTIVE INDICATOR ON THE PAYMENTS THAT THE UK RECEIVES FROM THE BUDGET AS A WHOLE (SECTIONS WHICH CAN BE BROKEN DOWN) FOR THE YEAR IN QUESTION RATHER THAN JUST ON ITS SHARE OF EAGGF PAYMENTS - ALTHOUGH I PERSONALLY WOULD PREFER THE LATTER. CALCULATIONS FOR 1980 AND 1981 SHOW THAT THIS INDICATOR WOULD PRODUCE MUCH THE SAME RESULTS.

7. COMPENSATIONS FOR THE UNITED KINGDOM WILL BE ENTERED IN THE BUDGET AND FINANCED THROUGH THE BUDGET. THIS IS A POINT WHICH MANY OF US REGARD AS EXTREMELY IMPORTANT - AND RIGHTLY SO. IN ITS JUNE 1981 REPORT, THE COMMISSION MADE SOME INITIAL SUGGESTIONS AS TO HOW THIS OBJECTIVE COULD BE ATTAINED BUT THE SERIOUS RESERVATIONS SOME OF US HAD LED ME TO PROPOSE A DIFFERENT FORMULA AT THE LONDON MEETING. I WOULD CONFIRM WHAT I SAID THEN AND PROPOSE THAT, QUITE EXCEPTIONALLY, THE REVENUE REQUIRED TO COVER COMPENSATION FOR THE UNITED KINGDOM SHOULD BE PROVIDED BY CONTRIBUTIONS FROM MEMBER STATES BASED ON ARTICLE 200 EEC ACCORDING TO A SPECIAL SCALE TO BE DECIDED AS PROVIDED FOR IN THAT ARTICLE.

THE COUNCIL DECISION OF 21 APRIL 1978 DID NOT REPEAL ARTICLE 200 EVEN THOUGH THE DECISION HAD TO BE APPROVED BY NATIONAL PARLIAMENTS. IN IT THE COUNCIL DID NO MORE THAN STATE THAT IN FUTURE THE BUDGET WOULD BE FINANCED FROM OWN RESOURCES. IT NOW APPEARS, AS OUR ANALYSIS OF THE BELGIAN PROPOSALS IN PARAGRAPH 3 ABOVE SHOWS, THAT, WITHOUT NEW OWN RESOURCES, IT WOULD BE IMPOSSIBLE - OR AT ANY RATE EXTREMELY DIFFICULT - TO FINANCE BOTH COMPENSATION TO THE UNITED KINGDOM UNDER THE POLITICAL CONDITIONS DESIRED BY THE COUNCIL AND THE MEMBER STATES AND THE COMMUNITY'S NORMAL EXPENDITURE. HENCE THE TEMPORARY AND EXCEPTIONAL USE OF ARTICLE 200.

WHILE THE COMMISSION IS PREPARED TO MAKE USE OF ARTICLE 200 TO COVER COMPENSATION TO THE UNITED KINGDOM BECAUSE OF THE SPECIAL FEATURES OF THIS EXPENDITURE, IT WOULD NOT PERMIT ITS USE FOR NORMAL COMMUNITY PURPOSES, EITHER TO SPEND ON COMMON POLICIES OR TO LAUNCH NEW POLICIES. SUCH EXPENDITURE MUST BE FINANCED FROM OWN RESOURCES AND THE COMMISSION CLEARLY STATED IN ITS JUNE 1981 REPORT THAT THESE SHOULD BE INCREASED IF REQUIRED FOR THE COMMUNITY TO ATTAIN ITS POLITICAL OBJECTIVES.

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THE SCALE LAID DOWN IN ARTICLE 200(1) HAS NOT BEEN ALTERED TO TAKE ACCOUNT OF THE TWO ENLARGEMENTS OF THE COMMUNITY. THE COUNCIL THEREFORE ACTING UNANIMOUSLY IN ACCORDANCE WITH ARTICLE 200(3), WOULD HAVE TO ADOPT A NEW SCALE TO COVER THE EXCEPTIONAL EXPENDITURE ON COMPENSATION TO THE UNITED KINGDOM - BUT THIS EXPENDITURE ALONE.

8. THE SCALE ADOPTED WOULD BE BASED ON POLITICAL CONSIDERATIONS REFLECTING THE REQUIREMENTS WE HAVE AGREED ON DURING OUR WORK. THE MAIN ONE IS THAT THE BURDEN ON THE LEAST PROSPEROUS COUNTRIES SHOULD NOT BE TOO GREAT AND THAT, IN PARTICULAR, GREECE AND IRELAND SHOULD MAKE ONLY VERY SMALL CONTRIBUTIONS. WE HAVE ALL SEEN THAT THERE IS A VERY REAL PROBLEM FOR GERMANY WITH THE COMMUNITY BUDGET. GERMANY HAS SAID THAT IT IS PREPARED TO MAKE A LARGE CONTRIBUTION TO THE FINANCING OF THE COMMUNITY, ESPECIALLY IF THIS IS FOR THE BENEFIT OF THE LEAST PROSPEROUS COUNTRIES. HOWEVER, FOR GERMANY TO PAY A LARGE SHARE OF THE COMPENSATION TO THE UNITED KINGDOM WOULD, IN THE PRESENT ECONOMIC CIRCUMSTANCES, CAUSE THE GERMAN GOVERNMENT POLITICAL PROBLEMS WHICH WE UNDERSTAND. ONE OF THE FORMULAS SUGGESTED BY OUR GERMAN COLLEAGUE IS THAT GERMANY SHOULD PAY A DISTINCTLY SMALLER CONTRIBUTION THAN ITS NORMAL SHARE WOULD HAVE BEEN.

DRAFT TEXT

1. ON 30 MAY 1980 THE COUNCIL REQUESTED THE COMMISSION TO EXAMINE THE DEVELOPMENT OF COMMUNITY POLICIES, IN PARTICULAR WITH A VIEW TO PREVENTING THE RECURRENCE OF UNACCEPTABLE SITUATIONS FOR ANY OF THE MEMBER STATES. THE EUROPEAN COUNCIL CONSIDERED THE COMMUNITY'S BUDGET SITUATION ON THE BASIS OF THE REPORT DRAWN UP BY THE COMMISSION PURSUANT TO THE MANDATE OF 30 MAY 1980. IT RECOGNIZED THE NEED TO SEEK A BETTER BALANCE BETWEEN COMMUNITY POLICIES IN ORDER TO CREATE A SOUND BASIS FOR THE FURTHER DEVELOPMENT OF THE COMMUNITY. IT CONSIDERED THAT ITS CONCLUSIONS ON THE DEVELOPMENT OF COMMUNITY POLICIES AND THE ADJUSTMENT OF THE COMMON AGRICULTURAL POLICY WERE THE FIRST MAJOR STEPS IN THIS DIRECTION, BUT IT RECOGNIZED THAT THE MEASURES CURRENTLY BEING PREPARED WOULD NOT HAVE ANY APPRECIABLE EFFECT FOR SOME TIME.

2. ACCORDINGLY THE EUROPEAN COUNCIL ADOPTED THE PRINCIPLE OF MEASURES TO GRANT THE UNITED KINGDOM FINANCIAL COMPENSATION, TO COME INTO FORCE FROM THE 1982 FINANCIAL YEAR. THEY WILL APPLY FOR FOUR YEARS AND WILL INVOLVE SOME KIND OF DECLINING SCALE. THEY WILL BE REVIEWED AFTER THREE YEARS. THEY WILL NOT AFFECT THE COMMUNITY'S FINANCIAL SYSTEM.

3. THE AMOUNT OF COMPENSATION WILL BE DETERMINED EACH YEAR, WHEN FINAL FIGURES ARE AVAILABLE, IN THE LIGHT OF THE REAL SIZE OF THE PROBLEM, AS MEASURED BY AN OBJECTIVE INDICATOR, AND ON THE BASIS OF THE RATE OF COMPENSATION AGREED. WITH THIS METHOD THERE WILL BE NO NEED FOR FRESH NEGOTIATION EACH YEAR.

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THE OBJECTIVE INDICATOR MAY BE BASED ON THE DIFFERENCE BETWEEN THE UNITED KINGDOM'S SHARE OF GROSS COMMUNITY PRODUCT (CALCULATED AS THE AVERAGE OF SEVERAL YEARS) AND THE UNITED KINGDOM'S SHARE OF PAYMENTS FROM THE EAGGF GUARANTEE SECTION IN THE YEAR IN QUESTION.

4. THE COMPENSATION FOR THE UNITED KINGDOM WILL BE ENTERED IN THE BUDGET. AS AN EXCEPTIONAL AND TEMPORARY MEASURE, THE CORRESPONDING REVENUE WILL BE PROVIDED BY CONTRIBUTIONS FROM THE MEMBER STATES UNDER ARTICLE 200 EEC, DETERMINED ON A SPECIAL (POLITICAL) SCALE WHICH WILL BE ADOPTED BY THE COUNCIL, ACTING UNANIMOUSLY IN ACCORDANCE WITH ARTICLE 200(3).

THE SCALE WILL RESPECT THE PRINCIPLE OF SOLIDARITY, WHICH THE COMMUNITY INTENDS TO APPLY WITH REGARD TO ITS LEAST PROSPEROUS MEMBERS, AND WILL TAKE ACCOUNT OF GERMANY'S PROBLEM CONCERNING THE COMMUNITY BUDGET (GERMANY WILL PAY A DISTINCTLY SMALLER CONTRIBUTION THAN ITS NORMAL SHARE WOULD HAVE BEEN).

ENDS

FCO ADVANCE TO (DESKBY) -
FCO - HANNAY DE FONBLANQUE FRY ECD(1)
CAB - ELLIOTT
MAFF - ANDREWS
TSY - EDWARDS HANCOCK

FCO PASS SAVING COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS

BUTLER

[REPEATED AS REQUESTED]

[ADVANCED AS REQUESTED]

FRAME ECONOMIC
ECD(1)

COPIES TO:-
ADVANCE ADDRESSEES



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

FOREIGN AND COMMONWEALTH SECRETARY

COMMUNITY BUDGET CONTRIBUTION

I agree with the approach you have in mind for the informal meeting of Foreign Ministers beginning tomorrow, about which I understand you are minuting the Prime Minister.

2. I see the attractions of going for agreement on a budget guideline and avoiding an uncomfortable break with ourselves at the centre of the dispute.

3. But I see no grounds for us to be making concessions at this stage. I believe that we could accept with equanimity a temporary break now, which would presumably take the form of a merely procedural conclusion, and that would be far preferable to letting ourselves be drawn into a prejudicial starting-point for the real negotiations still to come.

4. I therefore offer two general comments.

5. First, I welcome the idea that you should deliver a substantial and hard general comment in opening discussion on the budget guideline. I would favour adding to the points already suggested a comment that the Thorn draft does not provide any basis for the kind of outcome which we need.

6. Secondly, the kind of amended draft which you will be seeking goes, I think, as far as we can go without losing ground. We must not accept variants which would constrain or worsen our position in later negotiations in the interests of a harmonious conclusion to this meeting.



7. Finally I have two particular drafting comments:-

- in case you need an expanded version of the last sentence of the present paragraph 3 (which I would prefer to delete), I suggest the following sentence:

"The objective indicators could include relative prosperity and the difference between the UK's share of gross Community product and the UK's share of payments from the EAGGF guarantee section or from the budget as a whole; and these could be coupled with an improved financial mechanism."

- I dislike the phrase "rate of compensation" earlier in the same paragraph. It has a history linking it with partial compensation and could promote the wrong expectations and react particularly badly on the financial mechanism. A satisfactory neutral phrase would be "on the basis of the methods of calculation and timing of payments agreed". I hope you can get this change. If other countries made a great issue of it, my own suspicions and worries would be strengthened.

8. I am copying this minute to the Prime Minister and the Minister for Agriculture.

A handwritten signature in black ink, appearing to be "G.H.".

(G.H.)

13 January 1982

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cc: Chief Secretary
Financial Secretary
Economic Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Mr. Hancock
Mr. Littler
Mrs. Hedley-Miller
Mr. Edwards
Mr. Culpin
Mr. Mathews

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

Prime Minister

(2)

FOREIGN AND COMMONWEALTH SECRETARY

A handwritten signature in dark ink, appearing to be 'M. S. C.' or similar, written over the typed name of the Foreign and Commonwealth Secretary.

A.S.C.

We had a useful discussion on 23 December about how, this time, we are to secure a more satisfactory and durable solution to the problem of the UK's disproportionate contribution to the financing of the Community Budget.

2. You were not, I think, then altogether convinced that our cause would be helped by the circulation, to Community colleagues of a paper showing in more detail how the broad approach which the UK has advocated could work, in practice, in a sensible and equitable fashion. It was possible that our best hope now would be to work through the Commission, seeking first to guide and then to improve on their ideas. There is also the fear that if any rival proposals are placed on the table this may be counter-productive, causing a distraction and multiplying the possibilities for argument - real or artificial.

3. I described some of our reservations about the Commission's own scheme for refunds based on part of the shortfall of our FEODGA receipts below our share of Community GDP. To achieve an acceptable UK net contribution we would have to secure in negotiation both a very high percentage refund on the FEODGA side and a much improved financial mechanism. I understand President Thorn is circulating a paper which reiterates the Commission proposal and that Secretary General Noel outlined what would be possible under it to Sir Michael Palliser and others in terms which suggested a rate of UK net contribution substantially higher than we originally accepted under the May 1980 Agreement.



4. I realise that the Thorn paper will play an important part at your meeting of Foreign Ministers in Brussels this week, and we shall have to consider separately how we should handle that. In particular it may be necessary to make it clear at that stage that the UK is prepared to accept only a very modest net contribution. But what is happening on the Thorn paper does not suggest to me that we ought to rule out circulation of a scheme of our own at the right moment.

5. I concede that experience suggests that circulating a new UK paper would add to the area of debate. But this could be useful. I am doubtful whether we can safely cede the field to the Commission's scheme. At the very least we may give ourselves a chance of shifting the area of discussion in our direction by providing a counter-weight, which we certainly need.

6. I have looked again at the scheme which we discussed with Germans at the November Summit in Bonn. I think I can see ways in which it could be simplified and made more attractive, without changing its basic character. I enclose a brief description of our scheme in its modified form. I shall be seeing Matthöfer here on 14 January and I intend to use this occasion to take him through our ideas, about which he appeared so ill-informed in Bonn. I shall stress to him that we cannot accept more than a very modest net contribution. I also intend to raise this variant at these talks. I propose that in the light of his reaction, and of the outcome of this week's Foreign Affairs Council, you and I should consider again the possibility of a UK paper explaining our approach which might be presented, in the most attractive terms we can devise, to all our Community colleagues. I believe our approach has real merit for the Community (as well as being the only safe long term solution for us) and that we have to be ready to go on arguing it in a sustained way.

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7. I am sending copies of this minute to the Prime Minister and to Sir Robert Armstrong.

Jin Rutter

PP (G.H.)

12 January 1982

*Approved by the Chancellor
and signed in his absence*

OUTLINE OF NEW VARIANTS

1. There would be two underlying considerations:
 - a. first, that the net contribution of the largest net contributor has reached the kind of level which, if it were exceeded, would rightly be regarded, having regard to relative prosperity and population size, as bearing unreasonably on any one country;
 - b. second, that member states with below average GDP per head ought not to be net contributors. At most it might be accepted that a country narrowly below the average should contribute very modestly.

2. In practical terms, the first consideration could be interpreted as placing an upper limit of 15% of total allocated Budget appropriations on the contribution of a prosperous member state. The second could require the threshold, before any country would make any net contribution, to be represented by the attainment of 90% of average Community GDP per head.

3. This would establish the top and bottom ends of a range of limits on net contributions. Within the range there could then be a broad ranking of limits for other countries, taking into account their relative prosperity, and population size.

4. The available statistics suggest that, by comparison with the average Community GDP per head, member countries could be grouped in the following way:

Germany, Denmark	125% of average
France	115% of average
Netherlands	
Belgium	
Luxembourg	
UK	92.5% of average
Other countries	below 90% of average

5. If 90% of average GDP per head is taken as a threshold for making any net contribution, it will be seen that there is a margin, for all the countries specified in the list in the previous paragraph of 35, 25 or 2½ points compared with 90%. This indication of relative prosperity, used together with population size, completes the elements necessary to calculate a ranking order of equitable limits of contributions to any given total allocated Budget.

6. These calculated limits will differ from the actual outcome in respect of any given Community Budget. It is integral to the whole concept of limits that if these are, in practice, exceeded for any member state or states, other member countries will be asked to make up the difference. Having established the ranking order for the limits, taking into account relative prosperity and population size, there can follow automatically an equitable means of sharing out the corrective payments. This can be done by reference to "headroom" - the country which is most below its calculated limit pays most, and so on.

7. The corrective payments could in principle be financed from own resources. But it would be simpler to handle them through some kind of clearing account within the Budget, supervised by the Commission.

8. The table below illustrates one way in which the principles outlined in this paper could be worked out. But as it is based first and foremost on principles rather than numbers, other examples could be worked out. But, to avoid complication, it would always be desirable for the key elements underlying the calculations, including the calculation of relationships with average Community GDP per head, to be unchanged for periods of say 5 years.

Conclusion

9. As indicated above, the approach outlined in this paper would draw on elements of the various ideas which have been discussed recently in the Community. It would be perfectly consistent with development of Community policies other than agriculture, since the scale of corrective payments would be reduced as the size of the problem of imbalances was itself reduced.

DERIVATION AND APPLICATION OF LIMITS ON NET CONTRIBUTIONS : Estimates for 1981

	1	2	3	4	5		6	7
	GDP per head as % of Community average	Margin over 90%	Population (millions)	Limits (million ecus)	Net contributions(-) & receipts(+) to allocated budget (million ecus)		Memo: net cont(-) & receipts(+) to unallocated budget (million ecus)	
					Before limits	After limits		
Germany	125	35	61.75	2390	-1620	-1835		-120
Denmark	125	35	5.1	200	+ 305	+ 160		- 5
France	115	25	53.95	1490	+ 680	+ 65		- 30
Netherlands	115	25	14.2	390	+ 195	+ 30		- 55
Belgium	115	25	9.9	270	+ 370	+ 190		+ 5
Luxembourg	115	25	0.4	10	+ 280	+ 200		-
United Kingdom	92.5	2.5	56.1	150	-1550	- 150		- 185
Italy	65	-	57.3	-	+ 625	+ 625		-105
Ireland	50	-	3.5	-	+ 590	+ 590		-
Greece	40	-	9.7	-	+ 125	+ 125		- 15

Column 1 is an approximate rank ordering, using rounded averages.

Column 2 is the excess of each country's share of average Community GDP per head (from column 1) over a threshold of 90 per cent of that average.

In column 4, the limit for Germany is 15 per cent of total allocated budget appropriations, and is equivalent to 38.7 ecus per head. The limit for Denmark - with broadly the same prosperity margin - is similarly 38.7 ecus per head, multiplied by its population size. The limits for France and the Benelux are 38.7 ecus per head times the ratio of their margin (25) to the German margin (35), multiplied by their population size. The limit for the UK is calculated by the same process.

Column 5 is taken from the Commission estimates of 30 October 1980.

Columns 6 and 7 are UK estimates.

CONFIDENTIAL

Envo Ad
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29 December, 1981

European Community: Budget for 1982

The Prime Minister has seen and noted without comment the Chancellor of the Exchequer's minute of 24 December. I am copying this to David Wright (Cabinet Office).

W. F. S. RICKETT

John Kerr, Esq.,
H.M. Treasury

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

PRIME MINISTER

EUROPEAN COMMUNITY: BUDGET FOR 1982

The Financial Secretary chaired a Budget Council on 21 December to consider the votes in the previous week by the European Parliament which had:

(a) exceeded by 42 million ecus the totality of Budget payments which the Council had agreed to offer;

(b) similarly exceeded by 149 million ecus the totality of Budget commitments which the Council had agreed to offer;

(c) defied the Council by classifying 31 million ecus of food aid as "non-obligatory", thereby purporting to arrogate to itself the final decision on the amounts to be spent on this item.

2. In view of these disputes the Council decided to ask Madame Veil not to declare the Budget adopted. But she chose nevertheless to make the declaration.

3. Resolving the resultant confusion is likely to be time-consuming and difficult, but it is not a disaster. In particular, the refunds due to the UK in respect of 1981 under the 30 May Agreement are likely to be more secure with a Budget for 1982 which has been adopted, even in these tiresome circumstances, and which the Commission declare is legal, than without a Budget.

4. What we have to do, in consultation with our partner countries (other than Ireland, Italy and Greece, who have no difficulty with



the outcome) is to consider how, in making our payments in respect of 1982, we respond to the disputed items. The sums at stake are not large. The options are already being considered. We have until the beginning of February in which to make our decisions, since the payment due on the first working day of January is calculated by reference to the draft 1982 Budget.

5. The Financial Secretary's experience has convinced him that the Community's budgetary procedures and especially the relationship with the European Parliament, are profoundly unsatisfactory. I am sure that he is right, and that we must consider carefully the possibilities for improvement, though they are embodied in the Treaty, and the trouble starts there.

6. I am sending copies of this minute to our colleagues in OD(E), and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

24 December, 1981



124 DEC 1981

124 DEC 1981



cc: Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State (C)
 Minister of State (L)
 Sir Douglas Wass
 Sir Kenneth Couzens
 Sir Anthony Rawlinson
 Mr. Hancock
 Mrs. Hedley-Miller
 Mr. Ashford
 Mr. Collinson
 Mr. Edwards
 Mrs. Gilmore
 Mr. Culpin
 Mr. Salveson
 Mr. Towers
 Mr. Shore
 Mr. Ridley
 Mr. Cropper
 Mr. Harris
 Mr. A. Gordon

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

21 December 1981

D.C.R. Heyhoe, Esq.,
 Private Secretary to the
 Lord President of the Council

Prime Minister

②

[Handwritten signature]

[Handwritten initials]

Dear David,

EC BUDGET REFUNDS: ANNOUNCEMENT OF FURTHER SUPPLEMENTARY MEASURES SUPPORT

We expect the Commission to adopt decisions tomorrow under the supplementary measures regulation granting the balance of our budget refunds entitlement for 1980. As a result, we are to receive further payments of some £109 million. Since the Commission has calculated that we do not after all satisfy the conditions for a refund under the financial mechanism, the decisions also provide for the £210.5 million which we received on account under the mechanism in January to be converted to supplementary measures support. The decisions thus provide for additional Community contributions totalling £319.7 million granted to the seven regional investment programmes already receiving supplementary measures support and also to the programme of trunk roads investment outside the assisted areas which has not previously been granted support.

We propose to issue a press notice giving this information in London and the regions concerned at 4.30 p.m. tomorrow. The Financial Secretary proposes to inform Parliament in a written reply to an arranged PQ on the same day. I enclose a draft of the press notice. This also explains that we no longer expect this year to receive advances under the supplementary measures regulation against our 1981 refunds entitlement. These payments will now be made in the first quarter of 1982 instead.

The Chancellor suggests that the main points for the Government to get across publicly should be broadly the same as on previous occasions, viz:-

(i) the refunds are coming through as agreed; the latest decisions mean that we shall soon have received the whole of of 1980 budget refunds entitlement;

(ii) they are enabling public expenditure programmes in general to be maintained at a higher level than the country could otherwise have afforded;

/((iii))



(iii) they do not, however, open the way to increases in domestic public expenditure programmes beyond the levels already planned.

I am copying this letter to the Private Secretaries to the Prime Minister, the Secretary of State for the Home Department, the Foreign Secretary, the Lord Privy Seal, the Secretary of State for Industry, the Secretary of State for Energy, the Secretary of State for Employment, the Minister of Agriculture, the Secretary of State for the Environment, the Secretaries of State for Scotland, Wales and Northern Ireland, the Secretary of State for Social Services, the Minister of Transport, the Financial Secretary and Sir Robert Armstrong.

Yours ever
Peter

P.S. JENKINS

23 DEC 1981

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FM FCO 181800Z DEC 81
TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 1101 OF 18 DECEMBER
INFO ALL OTHER EC POSTS

MIPT: 30 MAY MANDATE
FOLLOWING IS TEXT:

BEGINS

1. I HAVE BEEN ASKED BY LORD CARRINGTON TO SEND YOU THE ENCLOSED MEMORANDUM SETTING OUT THE UK POSITION ON THE 4 POINTS, IN CONFIRMATION OF WHAT HE SAID TO PRESIDENT THORN IN STRASBOURG ON 17 DECEMBER. IT REMAINS NATURALLY OUR POSITION THAT AGREEMENT ON ALL THREE CHAPTERS IS ESSENTIAL TO OUR AGREEMENT ON THE PACKAGE AS A WHOLE.
2. REFLECTING ON OUR DISCUSSION AT COREPER LUNCH ON THURSDAY, I MYSELF WOULD DRAW THE CONCLUSION THAT IT IS GOING TO BE REALLY DIFFICULT TO GET MUCH MORE SPECIFICITY INTO THE TEXTS WHICH WERE UNDER DISCUSSION AT LANCASTER HOUSE ON 14/15 DECEMBER. EVERY ADDITION WILL CAUSE DIFFICULTIES FOR SOMEONE. EQUALLY, OF COURSE, WE MUST NOT LET ANY OF THE TEXTS GET VAGUER, OR THEY WILL BECOME USELESS, AS WELL AS RISKING LACK OF BALANCE. SO MY FEELING IS THAT OUR BEST HOPE OF REACHING AGREEMENT WILL BE TO WORK ON TEXTS WHICH ARE NEITHER MUCH MORE NOR MUCH LESS SPECIFIC THAN THOSE WE WERE LOOKING AT WHEN THE DISCUSSION AT LANCASTER HOUSE CAME TO AN END.

MEMORANDUM - 30 MAY MANDATE - UK VIEWS

1. ON MEDITERRANEAN AGRICULTURE, WE ARE NOW VERY CLOSE TO AN AGREEMENT BASED ON THE PRESENT TEXT. WE COULD AGREE TO THE INSERTION OF 'IMPROVING' INTO THIS TEXT IN THE CONTEXT OF AN OVERALL SETTLEMENT. FURTHER AMENDMENTS OF THE TEXT, FOR EXAMPLE BY INCLUDING A REFERENCE TO THE IMPORTS OF OILS AND

FATS WOULD NOT BE ACCEPTABLE TO US.

2. THE GERMAN TEXT ON CAP EXPENDITURE WITH THE COMMISSION FOOT-NOTE ATTRACTED A GOOD DEAL OF SUPPORT AT THE INFORMAL MEETING, AND WE THINK THAT THIS PROVIDES THE ONLY BASIS ON WHICH AGREEMENT IS LIKELY TO BE POSSIBLE.

3. THE MOST DIFFICULT ISSUES ARE MILK AND THE BUDGET. ON MILK, WE BELIEVE THAT THE JOINT PRESIDENCY/COMMISSION TEXT OFFERS THE ONLY REAL CHANCE OF AGREEMENT. THIS TEXT BRINGS OUT THE TWO POINTS WHICH ARE IMPORTANT ON THE TWO SIDES OF THE ARGUMENT. ANY ATTEMPT TO ELABORATE ONE SIDE OF THE ARGUMENT IS LIKELY TO BE UNACCEPTABLE TO THOSE WHO TAKE THE OTHER POINT OF VIEW. FOR EXAMPLE, A TEXT WHICH WAS EXPANDED TO BE MORE SPECIFIC ABOUT HELPING SMALL MILK PRODUCERS THROUGH A DIFFERENTIATED PRICE SYSTEM OR CO-RESPONSIBILITY LEVIES WOULD NOT BE ACCEPTABLE TO THE UK: AND ANY ELABORATION OF THE SECOND SENTENCE OF THE TEXT, WHICH IMPLIED THAT ANY FINANCIAL MEASURES IN FAVOUR OF SMALL PRODUCERS SHOULD BE WHOLLY OR LARGELY FINANCED BY THE COMMUNITY, SHOULD ALSO BE AVOIDED. SO FAR AS THE UK IS CONCERNED, THE TEXT MUST CONTAIN A REFERENCE TO THE NEED TO DEAL WITH THE MILK SURPLUS PROBLEM. WE COULD NOT AGREE TO A REFERENCE TO CONTINUATION OF THE EXISTING CO-RESPONSIBILITY LEVY UNLESS THIS WAS ACCOMPANIED BY A COMMITMENT TO EITHER THE SUPPLEMENTARY LEVY OR THE MODULATION OF THE INTERVENTION PRICES.

4. ON THE BUDGET, ANY GUIDELINES MUST, LIKE THE TEXT WHICH WE CIRCULATED DURING THE MEETING, COVER AT LEAST THE FOLLOWING 4 POINTS:-

A) PREVENTING THE RECURRENCE OF UNACCEPTABLE SITUATIONS. THIS LANGUAGE IS HALLOWED BY USAGE AND HAS IMPORTANT CONNOTATIONS. IT GOES BACK TO THE ASSURANCE WHICH WE RECEIVED FROM THE COMMUNITY DURING OUR ACCESSION NEGOTIATIONS, AND IT IS THE SPECIFIC AIM OF THE 30 MAY MANDATE ITSELF. WE COULD NOT ACCEPT A TEXT WITHOUT IT.

B) THE CORRECTIVE ARRANGEMENT SHOULD BE BASED ON OBJECTIVE CRITERIA AND IN PARTICULAR, RELATIVE PROSPERITY. THERE WAS SOME MOVEMENT AT THE INFORMAL MEETING TOWARDS ACCEPTING THAT AN ARRANGEMENT SHOULD BE BASED ON OBJECTIVE INDICATORS, BUT IT IS

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OF COURSE IMPORTANT WHAT THESE ARE. IT IS CLEAR THAT RELATIVE PROSPERITY MUST BE ONE OF THEM, SINCE IT IS SELF-EVIDENTLY ONE OF THE CRUCIAL ELEMENTS IN THE PROBLEM OF UNACCEPTABLE SITUATIONS. MOREOVER IT IS ALREADY RECOGNISED IN THE DUBLIN FINANCIAL MECHANISM WHICH TAKES AVERAGE GDP PER HEAD AS ONE OF ITS KEY CRITERIA FOR ELIGIBILITY.

C) THE PREVIOUS POINT IS LINKED WITH OUR VIEW THAT THE CORRECTION SHOULD HAVE GENERAL APPLICATION. LESS PROSPEROUS MEMBER STATES (THE UK NOW, POSSIBLY PORTUGAL IN FUTURE) SHOULD NOT HAVE TO BEAR AN EXCESSIVE BUDGETARY BURDEN. AND POLITICALLY, IT WOULD BE DAMAGING IF WE HAD TO SAY THAT WE HAD A SPECIAL ARRANGEMENT FOR THE UK. WE NEED TO BE ABLE TO SAY THAT UNACCEPTABLE SITUATIONS CAN NO LONGER ARISE.

D) THE CORRECTIVE ARRANGEMENT SHOULD CONTINUE AS LONG AS THE PROBLEM PERSISTS BUT COULD BE SUBJECT TO REVIEW AFTER SOME REASONABLE PERIOD OF YEARS. IT IS DAMAGING TO THE COMMUNITY TO HAVE TO DISCUSS THESE ISSUES AT FREQUENT INTERVALS. IT IS INCONCEIVABLE THAT THE COMMUNITY SHOULD DECIDE NOW THAT, AT SOME FIXED DATE IN THE FUTURE, IT WOULD CEASE TO CORRECT A SERIOUS PROBLEM WHICH IT HAD IDENTIFIED AND WHICH AFFECTED ITS FUNDAMENTAL SOLIDARITY. THE PURPOSE OF THE REVIEW WOULD BE TO ASSESS THE PROGRESS MADE IN IMPROVING THE BALANCE OF COMMUNITY POLICIES AS A RESULT OF THE DECISIONS FLOWING FROM CHAPTERS 1 AND 2 OF THE MANDATE.

5. AS WAS MADE CLEAR AT THE MEETING LAST WEEK, THE UK COULD NOT ACCEPT ANY SUGGESTION THAT THE SOLUTION TO THE BUDGET PROBLEM SHOULD BE ARBITRARILY DEGRESSIVE, LUMP SUM, OR SHOULD BE CUT OFF AFTER A FIXED PERIOD. THERE IS NO HOPE OF AGREEMENT ON TERMS SUCH AS THOSE. THIS IS NOT TO SAY THAT THE AMOUNT OF THE CORRECTIVE WOULD REMAIN THE SAME IF THE PROBLEM WERE REDUCED AS A RESULT OF DECISIONS FLOWING FROM CHAPTERS 1 AND 2 OF THE MANDATE. ON THE CONTRARY, WE ACCEPT, AS IN THE PRESIDENCY TEXT CIRCULATED AT THE INFORMAL MEETING, THAT, TO THE EXTENT THAT THE BUDGETARY BURDEN ON THE UNTIED KINGDOM IS REDUCED, THE EXTENT OF THE CORRECTIVE ARRANGEMENT REQUIRED WILL BE DIMINISHED.

CARRINGTON

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10 DOWNING STREET

From the Private Secretary

18 December 1981

Community Budget Refunds

The Prime Minister has seen and taken note of the Chancellor's minute of 16 December on this subject.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

A. J. COLES

John Kerr Esq
HM Treasury.

19



Prime Minister

To note

16.
12

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

PRIME MINISTER

COMMUNITY BUDGET REFUNDS

In paragraphs 19 and 20 of my minute of 9 December I suggested a procedure, to which you agreed, for handling at the Finance Council, on 14 December, the question of "advances".

2. In the event, neither France nor Germany was represented by a Minister at the Finance Council lunch. We ascertained from bilateral enquiries in advance that French and German officials would have been obliged by their instructions to vote against the proposal to pay advances to the United Kingdom, thus preventing the achievement of the necessary qualified majority. Having previously prepared the ground with Vandeputte, the Belgian Minister of Finance and representative of the incoming Presidency, I suggested at lunch that the matter be carried forward for resolution in 1982. Vandeputte said that the Belgians had no objection to this procedure and no-one else spoke.

3. We had of course previously received an assurance from Thorn (UKREP telegram No.4824) that, if the advances proposed were not agreed in 1981, the Commission would propose the carry-over of the sum of 150 million ecus into 1982. UKREP will now take steps to ensure that the Commission live up to this assurance.

4. I am copying this minute to the Foreign Secretary and Sir Robert Armstrong.

G.H.

16 December 1981



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CONFIDENTIAL

PRIME MINISTERCommunity Affairs

You may wish to report to the Cabinet that you visited Strasbourg to address the European Parliament, the first President of the European Council to do so.

2. The Chancellor of the Exchequer might be invited to report on the ECOFIN Council on 14th December. Progress was made on some aspects of the draft non-life insurance services Directive and the remaining problems were remitted for further study and a report back to the Council by next April. The Council also agreed that the Commission should prepare some reflections on the future development of the European Monetary System, for eventual submission to the March European Council. As foreshadowed in last week's Cabinet, the Chancellor raised the question of the United Kingdom's budget refunds in the margins of the Council. It emerged that, if the question were put formally, the French and Germans would vote against the payment of advances in respect of 1981 before the end of the year; but that there would be no objections to these sums being transferred from the reserve chapter to an operational line in the budget and being carried forward to 1982. The Chancellor therefore avoided a vote and the transfer will now go ahead as part of the budgetary process. Final payments of the outstanding sums due to the United Kingdom in respect of 1980 will be made before the end of the year.

3. You will wish the Lord Privy Seal to report on the outcome of the informal meeting of Foreign Ministers on 14th and 15th December on the four mandate issues remitted to it by the European Council. No substantive decisions were reached, though significant progress was made towards agreement on a ceiling for agricultural expenditure and on the Mediterranean regime. The meeting invited the President of the Commission to produce proposals on all four guidelines for consideration at a further meeting likely to be held on 14th-15th January under the Belgian Presidency. Full discussion of the results of the meeting should presumably wait until the Foreign and Commonwealth Secretary is available to take part in it.

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4. You might wish the Minister of Agriculture to report on the Agriculture Council on 15th December, at which the United Kingdom blocked agreement on a new mandate for the ACP sugar negotiations, and joined with others in demanding action by the Commission against the latest package of French national aids to their farmers. OD(E) will meet on 21st December to consider the ACP sugar question in advance of the expected EC/ACP Joint Council.

5. The Secretary of State for Transport might report on the 15th December Transport Council, which proved unable to reach agreement on the draft Directive on inter-regional air services.

6. The European Parliament will be voting on the morning of 17th December on the 1981 Rectifying Budget and the 1982 Budget. If necessary, the Chancellor of the Exchequer might report on the progress of Mr. Ridley's negotiations with the Parliament on behalf of the Budget Council.

RIA

Robert Armstrong

16th December 1981



PM/81/64

PRIME MINISTER

Meeting of Foreign Ministers on 14/15 December - The Mandate

I shall be missing Cabinet tomorrow, and I thought that you might in any case like a brief account of our meeting at Lancaster House on the 30 May Mandate.

We did not resolve the four problems but I believe we have moved the discussion forward in a helpful way. It was clear from our discussions that the two key questions are milk and the budget. If we can settle these there should not be too much of a problem in getting agreement on reasonably satisfactory texts on limiting CAP expenditure and on the Mediterranean.

On the budget we had the most thorough discussion so far. On the first day there was a fairly solid line-up against us and in favour of offering us only a three year degressive and ad hoc arrangement. But we continued the discussion over dinner, and we devoted nearly all the morning of the second day to it, including nearly an hour with no advisers present. I made it absolutely clear that a solution based on concepts like degressivity was not acceptable to us, and I think that by the end we had a better understanding by the others of our case. I circulated a new text agreed with Geoffrey Howe which incorporated our four key points (preventing the recurrence of unacceptable situations, general application of the corrective arrangement, basing the correction on objective criteria and in particular relative prosperity, and indefinite duration subject to review). This predictably ran into opposition although it got support from the Germans.

/On milk



On milk there remained clear differences of opinion, particularly on small producers. We succeeded in getting the Commission to support a joint Commission/ Presidency text which was within our agreed negotiating brief. The text gave no pleasure to the French and was not agreed. We shall now have to try to hold the Commission to it.

The conclusion was that the President of the Commission should make revised proposals for guidelines, taking account of the discussion, for us to consider at a further special meeting which looks like being on 14/15 January. We shall need to consider further how to play the January meeting when we have seen what Thorn produces. I am seeing him in Strasbourg tomorrow to make sure he understands our sticking points.

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

A handwritten signature in blue ink, appearing to be 'C', is located to the right of the text.

(CARRINGTON)

16 December 1981

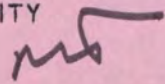
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TO IMMEDIATE UKREP BRUSSELS

TELEGRAM NO 1085 OF 15 DEC

INFO IMMEDIATE OTHER EC POSTS WASHINGTON BIS NEW YORK PRIORITY
WARSAW TEL AVIV CAIRO DAMASCUS BAGHDAD JEDDA MOSCOW. 

FOLLOWING FROM HEAD OF NEWS DEPARTMENT

EC FOREIGN MINISTERS MEETING IN LONDON

1. FOLLOWING THE EC FOREIGN MINISTER MEETING IN LONDON ON 14/15
DECEMBER THE SECRETARY OF STATE GAVE INTERVIEWS TO BBC TV ITN AND
BBC RADIO ON THE COMMUNITY, POLAND AND THE GOLAN HEIGHTS.

FOLLOWING IS EDITED TRANSCRIPT OF THE BBC RADIO AND ITN INTERVIEWS:

BBC RADIO

THE MANDATE

Q: HOW MUCH HAVE YOU MOVED THINGS FORWARD SINCE THE HEADS
OF GOVERNMENT MEETING. IS THERE A CHANCE OF A BREAKTHROUGH AS A
RESULT OF THESE TALKS?

A: WE HAVE MOVED THINGS FORWARD QUITE A BIT, ALTHOUGH I DONT THINK
ONE COULD SAY THAT WE HAD SOLVED ALL THE PROBLEMS. THE TWO REALLY
BIG PROBLEMS THAT REMAIN ARE THE PROBLEMS OF MILK AND THE QUESTION
OF EXCESSIVE PRODUCTION AND WHETHER OR NOT SMALL PRODUCERS ARE PAID
MORE THAN OTHERS - THESE ARE OBVIOUSLY DIFFICULT PROBLEMS FOR VARI-
OUS MEMBERS OF THE COMMUNITY: AND THEN THERE IS THE BUDGET PROBLEM.
ON THE BUDGET PROBLEM I THINK THAT WE HAD FOR THE FIRST TIME A GOOD
DISCUSSION ABOUT IT AND I GOT THE FEELING, AFTER I HAD I HOPE MADE A
FAIRLY LUCID EXPOSE OF OUR CASE, THAT PEOPLE DID BEGIN TO UNDERSTAND
THAT THERE REALLY WAS A PROBLEM AND THAT THERE WAS A NEED TO DEAL
WITH IT. I FELT RATHER ENCOURAGED BY IT. BUT THATS NOT TO SAY THAT WE
HAVE GOT A SOLUTION YET. I THINK WE HAVE PUSHED THINGS FORWARD.

Q: WHEN DO YOU THINK YOU WILL MEET AGAIN?

A: I SHOULD THINK PROBABLY THE BEGINNING OR MIDDLE OF JANUARY.
WHATS GOING TO HAPPEN NOW IS THAT IN THE LIGHT OF WHAT WE DID TODAY
THE PRESIDENT OF THE COMMISSION, M. THORN, WAS GOING TO GO AWAY
AND REWRITE SOME OF THE STUFF IN THE LIGHT OF IT ALL, AND WE WOULD
HAVE A LOOK AT IT IN THE MIDDLE OF JANUARY, AND HOPE PERHAPS THAT
WE CAN COME TO A CONCLUSION THEN.

Q: WHEN YOU SAY THERES A FULLER UNDERSTANDING OF BRITAINS POSITION
ABOUT THE BUDGET, DO YOU MEAN THAT YOUR COLLEAGUES WITHIN THE
COMMUNITY AGREED A SET NUMBER OF YEARS FOR SOME SORT OF BUDGET
PROPOSAL?

A: NO, WE HAVENT AGREED A SET NUMBER OF YEARS. WE HAVENT REALLY
AGREED THE MECHANISM BY WHICH YOU DO IT. WHAT I THINK THERE IS
AGREEMENT ABOUT IS THAT THERE IS A PROBLEM AND ITS GOT TO BE DEALT
WITH. ITS NOT JUST US NOW, ITS THE GERMANS AS WELL, BECAUSE THE
GERMANS ARE FAR AND AWAY THE BIGGEST CONTRIBUTORS AND THEY ARE
GETTING VERY RESTLESS AS WELL. SO THERE IS AN UNDERSTANDING THAT
BOTH THESE PROBLEMS HAVE GOT TO BE DEALT WITH. THEY HAVENT BEEN
SOLVED YET, BUT I THINK WE HAVE GONE A BIT FURTHER DOWN THE LINE
THAN WE WERE BEFORE.

/ GOLAN

GOLAN

Q: ON THE MIDDLE EAST YOUR STATEMENT COLLECTIVELY SEEMED TO REFLECT A DEEP DISPPPOINTMENT OVER THE ISRAELI ANNEXATION OF THE GOLAN HEIGHTS IT WOULD SEEM THAT THE VENICE DECLARATION ISNT GETTING MUCH SUPPORT. THE ARAB LEAGUE DIDNT WANT TO KNOW, THE SAUDI PLAN, WHICH EMBODIED MUCH OF EUROPEAN THINKING, THE ISRAELIS HAVE ALWAYS BEEN OPPOSED. IS THE VENICE DECLARATION AN IDEA WHOSE TIME HAS NOT YET COME?

A: I DONT KNOW ABOUT THAT. REALLY WHAT THE VENICE DECLARATION SAYS, IT EMBODIES TWO PRINCIPLES: ONE IS THE RECOGNITION BY THE ARABS OF THE STATE OF ISRAEL: THE OTHER IS THE RECOGNITION BY ISRAEL OF THE RIGHTS OF THE PALESTINIANS. I DONT BELIEVE THAT ANY THINKING PERSON CAN REALLY BELIEVE THAT THAT IS NOT THE ONLY BASIS ON WHICH NEGOTIATED SETTLEMENT IN THE MIDDLE EAST IS GOING TO BE MADE. THERE IS REALLY NO OTHER WAY IN WHICH IT IS GOING TO BE MADE. I THINK YOU ARE WRONG IF YOU THINK THAT THAT IDEA AND THOSE PRINCIPLES HAVENT GAINED GROUND IN THE LAST 18 MONTHS I THINK MORE AND MORE YOU FIND PEOPLE WILL SAY THAT THOSE ARE THE PRINCIPLES ON WHICH ITS GOT TO BE BASED. ADMITEDLY, AND I AGREE WITH YOU, SOMETIMES YOU HAVE A SETBACK. FEZ WAS CLEARLY A SETBACK AND THERE HAE BEEN OTHER INSTANCES. I THINK THAT THE VENICE DECLARATION DID HAVE AND IS HAVING A VERY CONSIDERABLE EFFECT.

Q: THE LATEST ISRAELI MOVE DOESNT HELP EITHER DOES IT?

A: NO IT DOESNT, BUT THEN THAT ISNT GOING TO HELP IN THE COMPREHENSIVE PEACE SETTLEMENT AT ALL. FEZ DIDNT HELP BECAUSE IT REJECTED ONE SIDE OF IT, THIS ISNT GOING TO HELP BECAUSE OF COURSE IT WILL BE CONSIDERED BY THE SYRIANS AND BY THE OTHER ARABS - YOU HAVE SEEN THE EGYPTIAN REACTION AND OF COURSE THAT MAY HAVE PRODUCED DIFFICULTIES FOR THE EGYPTIAN/ISRAEL PEACE TREATY - YOU HAVE SEEN THE AMERICAN REACTION. THIS IS OBVIOUSLY MAKING THE COMPREHENSIVE PEACE SETTLEMENT THAT MUCH MORE DIFFICULT.

BRITISH PRESIDENCY

Q: WE ARE COMING TO THE END OF THE BRITISH PRESIDENCY WHAT DO YOU FEEL WE HAVE ACHIEVED, WHAT DO YOU THINK YOU HAVE ACHIEVED, AND WHAT ARE YOUR DISAPPOINTMENTS?

A: THE DISAPPOINTMENT OF COURSE IS THAT WE HAVENT SOLVED THE RESTRUCTURING OF THE BUDGET AND THE AGRICULTURAL POLICY AND SO ON, ALTHOUGH I THINK, AS I SAID EARLIER, WE HAVE GONE SOME WAY TO SOLVING IT, SOME WAY AT ANY RATE ON THE ROAD TO SOLVING IT. THATS A DISAPPOINTMENT BECAUSE ONE HAS HOPED WE WOULD DO IT. BUT I SUPPOSE IN RETROSPECT IT WAS RATHER AN EXAGGERATED HOPE. ANYWAY YOU COULDNT SAY YOU DIDNT THINK YOU WERE GOING TO SOLVE IT. AND SO THATS A DISPPPOINTMENT. BUT I DO THINK THAT WE HAVE MADE ONE OR TWO MODEST BUT USEFUL GAINS. I THINK OUR RELATIONS WITH THE EUROPEAN PARLIAMENT AS A RESULT OF WHAT WE HAVE DONE HAVE IMPROVED: I THINK WE HAVE MADE SOME, TAKEN SOME STEPS FORWARD IN COMPLETING THE INTERNAL MARKET, INSURANCE AND AIR FARES AND SO ON, WE HAVE GOT SOME WAY DOWN THAT LINE: AND I THINK WE HAVE IMPROVED OUR POLITICAL COOPERATION, AND THAT I THINK OVER THE LAST COUPLE OF YEARS HAS BEEN THE SUCCESS STORY OF THE COMMUNITY, AND I THINK IN A MODEST USEFUL WAY WE HAVE IMPROVED THAT DURING OUR SIX MONTHS WITH THE LONDON AGREEMENT THAT WE ALL SIGNED IN OCTOBER.

ITN

POLAND

Q: A LOT OF PEOPLE IN THIS COUNTRY AND AROUND THE WORLD, AND NOT JUST POLES IN EXILE, ARE EXTREMELY ANGRY AT WHAT HAS HAPPENED, THIS STRICT IMPOSITION OF MARTIAL LAW, AND YET YOUR STATEMENT SEEMS TO BE QUOTE MILD, IT DOESNT STRONGLY CONDEMN THAT IMPOSITION OF MARTIAL LAW. WHY NOT?

A: TWO REASONS REALLY, ALTHOUGH WE EXPRESS GREAT CONCERN AT WHATS HAPPENED. WE HAVE ALWAYS SAID FROM THE BEGINNING WHEN THIS FIRST STARTED IN AUGUST 18 MONTHS AGO THAT THIS WAS AN INTERNAL MATTER FOR THE POLES AND THAT WE WERE NOT GOING TO INTERFERE IN THEIR INTERNAL AFFAIRS, AND THEREFORE I THINK ONE MUST BE CAREFUL NOT TO INTERFERE IN A WAY WHICH IS GOING TO MAKE THINGS WORSE. BUT I THINK RATHER MORE IMPORTANTLY THAN THAT, THAT GENERAL JARUSELSKI HAS SAID, FIRST OF ALL THAT HE HOPES THIS IS TEMPORARY AND THAT WHEN, AS HE SAYS, LAW AND ORDER IS RESTORED THEY WILL GO BACK TO WHERE THEY WERE BEFORE: SECONDLY HE HAS SAID THAT THIS DOES NOT MEAN THAT THE GAINS THAT HAVE BEEN MADE IN WHAT THEY CALL THE RENEWAL, ARE GOING TO BE WITHDRAWN, THAT THERE IS ANY QUESTION OF GOING BACK TO WHAT IT WAS LIKE 18 MONTHS AGO. I THINK THATS VERY IMPORTANT. SO WHAT WE HAVE DONE AND WHAT WE THOUGH WAS RIGHT TO DO, WAS TO EXPRESS OUR CONCERN FOR WHATS HAPPENED, AND IN PARTICULAR AT THE IMPOSITION OF MARTIAL LAW, AND THE DETENTION OF TRADE UNIONISTS, BECAUSE I THINK THATS A VERY SERIOUS MATTER, AND HAVE EXPRESSED OUR HOPE THAT THE POLES WILL MANAGE TO RECONCILE THEIR OWN DIFFERENCES. WE DONT BELIEVE THAT ANYTHING EXPRESSED IN STRONGER TERMS THAN THAT WOULD NECESSARILY BE VERY HELPFUL. WE WANT TO BE ON RECORD, THE TEN OF US, THAT THIS WAS A MATTER FOR SERIOUS WORRY.

Q: THERE SEEMS TO BE A DEVELOPMENT INTERNATIONALLY A DIVISION DEVELOPING BETWEEN HOW VARIOUS STATES SHOULD REACT, PARTICULARLY OVER THE QUESTION OF FOOD AID. IT WOULD BE POSSIBLE PRESUMABLY FOR THE EC TO CUT OFF THE VERY LARGE AMOUNTS OF FOOD THAT WE ARE SENDING INTO POLAND AS A STRONG SIGN OF ITS DISAPPROVAL. WHY HAS THAT NOT BEEN DONE?

A: THE TEN HAVE TAKEN THE VIEW THAT THEY DONT WANT TO RESCIND AS OF NOW THE FOOD AID THATS GOING IN AND THAT NOTHING HAS HAPPENED WHICH MAKES IT DESIRABLE AS OF NOW TO PUNISH THE POLISH PEOPLE WHO ARE GETTING FOOD. BUT I THINK THAT WE SHALL HAVE TO WATCH EVENTS IN POLAND. WE SHALL HAVE TO MAKE UP OUR MIND IN THE NOT TOO DISTANT FUTURE AS TO WHAT FOOD AID WILL BE SENT FROM THE COMMUNITY NEXT YEAR. I DONT THINK THAT WE OUGHT TO MAKE THAT DECISION UNTIL WE HAVE SEEN WHAT IS GOING TO HAPPEN IN THE NEXT WEEK OR TWO.

Q: SO YOU ARE REALLY PUTTING GENERAL JARUSELSKI AS IT WERE ON TRIAL TO SEE WHAT HE DOES, THEN YOU WILL MAKE YOUR DECISIONS ABOUT HOW YOU SHOULD REACT FURTHER?

A: I THINK WE HAVE GOT TO SEE THE CIRCUMSTANCES IN POLAND OVER THESE NEXT FEW WEEKS BECAUSE I CAN ENVISAGE CIRCUMSTANCES IN WHICH IT IT WOULD BE VERY DIFFICULT TO GO ON SENDING FOOD AID. I CAN EQUALLY VISUALISE CIRCUMSTANCES IN WHICH IT WOULD BE QUITE WRONG TO CUT OFF FOOD AID, AND SO I THINK WE HAVE JUST GOT TO WATCH AND SEE WHAT HAPPENS.

CARRINGTON

FCO WHITCHALL
NEWS.D

CONFIDENTIAL

Qz.02399

MR COLES

Handley on

Prime Minister

The Foreign Secretary may want to have a word about the Foreign Minister's meeting when he comes to see you on Monday.

Mr 1/2.

FOLLOW UP TO EUROPEAN COUNCIL: 30 MAY MANDATE

1. Mr Alexander's letter of 4 December instructed officials to agree detailed briefing for the informal meeting of Foreign Ministers on 14/15 December. Sir Robert Armstrong's minute of 7 December undertook to report further following the Minister of Agriculture's minute to the Prime Minister of 7 December.

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2. Of the three agricultural issues, the most difficult is milk. In his minute, the Minister of Agriculture explained his unwillingness to envisage helping small milk producers in any way which built a competitive advantage into the milk regime itself. For this reason he was unwilling to accept either the Chancellor's suggestion that we might agree to continue the milk co-responsibility levy "taking account of the situation of small producers", or the German scheme, even though the latter would have a less adverse impact on the UK than the Commission's original proposal. The brief on milk will therefore say that, in the context of a satisfactory package, we would be ready to consider measures to help the small milk producer, but not in any way tying the measures to the co-responsibility levy and leaving us free to argue later that the appropriate method was through temporary income aids largely financed nationally. Secondly, we shall argue for either the supplementary levy on milk or a reduction in intervention prices, and only agree to the continuation of the present type of co-responsibility levy if other member states accept one or other of these principles.

3. On the guidelines for agricultural expenditure, the Foreign Secretary will be advised to support the text proposed by Chancellor Schmidt at the European Council which would lay a clear obligation on the Council and Commission to ensure that agricultural expenditure grew less rapidly than own resources. If the Germans can accept a less binding formulation then we would be ready to follow them but only if our requirements on a budget corrective had been met.

/4.

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4. On Mediterranean agriculture, the Foreign Secretary will be recommended to support the Germans, but be ready at the end of the day to accept a reference to "improving" the Mediterranean regimes, provided it is in very general terms and not linked to the specific products.

5. As regards the Budget problem itself, the Prime Minister agreed that the Chancellor of the Exchequer's minute of 3 December provided a satisfactory basis for negotiating guidelines and the brief for the Foreign Secretary is being prepared accordingly. It is possible that the French and others will come to the meeting intent on discussing figures, or at least defining the limits of what they are prepared to contribute towards refunds for the United Kingdom. It is unrealistic to believe that a real negotiation on figures could be mounted, still less brought to a satisfactory conclusion at this meeting.

6. The Foreign Secretary intends to have a first exchange on all four issues when the meeting opens at 6 pm on Monday evening; to have dinner with the Foreign Ministers alone on Monday night; and then devote Tuesday to discussing texts. It is of course understood that only a balanced outcome is acceptable: words for words or principles for principles. Given our own minimum requirements and what we know about the position of other governments, the prospects for agreement are slim. If a text can be agreed, it will be reported to Heads of Government as proposed by the Prime Minister at the European Council. If there is no agreement, the Foreign Secretary will propose the fall back position we had in mind at the time of the European Council, namely that we should no longer pursue the idea of guidelines but work for a detailed budget settlement and detailed changes in the CAP to be decided upon at the time of the next price fixing.

M D M FRANKLIN

11 December 1981

cc FCO
HMT
CO

Euro PD

10 December 1981


30 May Mandate: Foreign Ministers Meeting

The Prime Minister has seen and taken note of Mr. Walker's minute of 7 December.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (H.M. Treasury) and David Wright (Cabinet Office).

JOHN COLES

Miss Kate Timms,
Ministry of Agriculture, Fisheries and Food.



CONFIDENTIAL

cc FCO
CO

HL

10 December 1981

Community budget refunds

The Prime Minister has seen the Chancellor's letter of 9 December and has agreed to the proposals in paragraphs 19 and 20.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

John Coles

John Kerr, Esq.,
H.M. Treasury.

CS

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER


Community Affairs

In the absence of the Foreign and Commonwealth Secretary, the Lord Privy Seal will wish to report on the meeting of the Foreign Affairs Council on 7th-8th December, the last under the British Presidency. There was a heavy agenda, and not very much progress. Arrangements for continued restrictions on steel imports for 1982 were agreed. Other issues (ACP Sugar, Telecommunications, Social Measures for Steel) will go to other Council Meetings next week or be left to the Belgian Presidency. The Council still failed to reach agreement on a new trade arrangement with Cyprus. The Foreign Ministers agreed a statement deploring the treatment of the Sakharov family. The Lord Privy Seal himself chaired a parallel session of the Council on textiles at which a further partial Mandate for the renewal of the Multifibre Arrangement and a Mandate for negotiations with the Mediterranean suppliers were agreed. The Secretary of State for Trade may have comments.

2. On the 30th May Mandate, it was agreed that Foreign Ministers would meet at Lancaster House from late afternoon on Monday 14th December continuing until the afternoon of 15th December. The French and German Foreign Ministers are likely to be accompanied by their Ministers responsible for European Affairs and the Irish Minister by his Agricultural colleague. The meeting will be limited to the four points identified by the European Council, viz, milk, agricultural expenditure, Mediterranean agriculture and the Budget.

3. The Foreign and Commonwealth Secretary had bilateral discussions with the French and Germans about our budget refunds in respect of 1980 and 1981. The Chancellor of the Exchequer will be minuting you about how to handle this issue with the Commission and at the ECOFIN Council on Monday.

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CONFIDENTIAL

4. The Secretary of State for the Environment could report on the Environment Council on 3rd December. This was a considerable success. Among issues settled were long-running dossiers on major accident hazards ('Seveso') and a Directive on mercury pollution.

5. The Secretary of State for Employment may wish to speak about the Social Affairs Council on 8th December which agreed a resolution for assisting the disabled and a regulation extending reciprocal social security benefits to the self-employed. It also invited the Commission to bring forward its ideas on the review of the Social Fund. The Home Secretary does not intend to mention this.

6. Ministers for Industry are holding an informal meeting on 10th December; the ECOFIN Council meets on 14th December; the Fisheries Council on 14th December continuing on 16th December and the Agriculture and Transport Councils on 15th December. You will be attending the European Parliament in Strasbourg on 16th December to report on the European Council.

RA

Robert Armstrong

9th December 1981

CONFIDENTIAL



10 DOWNING STREET

Prime Minister

A decision is needed tonight.

2. Michael Franklin and the
F/C.O. we happy with the
Chancellor's proposals.

3. Agree the proposals in
paras. 19 and 20.

A. J. C. 9/12

Yes



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

PRIME MINISTER

COMMUNITY BUDGET REFUNDS

You will recall that we are having trouble with other member states, particularly France and Germany, over securing the balance of our Community budget refunds for 1980 and advance payments for 1981. This minute discusses what our next steps should be. One decision - paragraph 16 below - is urgent.

Amounts still owing

2. On our own 'minimum net refund' interpretation of the 30 May agreement, the Community still owes us some 211 million ecus gross in respect of 1980, and our gross entitlement for 1981 is some 1805 million ecus. The provision made in the Community budgets for 1980 and 1981 and the draft budget for 1982 are consistent with this interpretation.

3. On a 'minimum net contribution' interpretation, and assuming that the Commission's latest estimates of uncorrected net contributions are accepted, we have already received more than our total gross entitlement in respect of 1980. We ought therefore to repay some 123 million ecus gross. Our estimated gross entitlement for 1981 falls on this interpretation to some 992 million ecus. (See further the tables at annexes A and B.)

4. The reason why the minimum net refund and minimum net contribution interpretations produce such different results is that the Commission have reduced their estimates of the UK's uncorrected net contributions for 1980 and 1981 by as much as 900 million ecus since the time of the 30 May 1980 agreement. Their estimate of our uncorrected net contribution for 1980 has fallen by 263 million ecus; and that for 1981, by 635 million ecus.

Impending hurdles

5. There are three main hurdles which need to be surmounted if we are to secure the balance of our refunds for 1980 and advances for 1981 before the end of the year.

(i) Financial mechanism transfer

The 1981 budget provision for the financial mechanism needs to be transferred to supplementary measures, now that we have again failed to qualify for the financial mechanism.

(ii) Supplementary measures advances transfer

The provision of 150 million ecus for advances in the 'reserve' chapter of the 1981 budget needs to be transferred on to the supplementary measures line of the budget so as to enable the Commission to pay it out to us.

(iii) Council agreement to advances

In accordance with the supplementary measures regulation, the Council have to decide on advance payments of supplementary measures.

6. The Commission have put forward proposals on each of the above. Their proposals on the two transfers (items (i) and (ii)) will prevail automatically unless a qualified majority of the Council has taken a contrary view by 21/22 December. We can prevent such a qualified majority from forming so long as the Commission's proposals are supported by at least one large member state (such as Italy) besides the UK. We are seeking to confirm that the Commission share our interpretation of the rules.

7. For approval of the supplementary measures advances (item (iii)), however, a decision is needed in the Council. Without such a decision, our advances will be postponed from December to March.



8. The Commission's proposals are not ideal from our point of view. In particular:-

(a) The supplementary measures transfer provides for only 150 million ecus of advances as against the figure of at least 200 million ecus envisaged in the agreed Council minutes entry of October 1980.

(b) There have been signs that the Commission may try to carry through the financial mechanism transfer at a set of exchange rates which would be to our disadvantage. We are protesting.

9. Subject to these two points, however, it is clearly in our interests that the Commission's proposals should go through. Without them we cannot obtain the balance of our refunds for 1980 or advances for 1981.

10. A further hurdle is that the ad hoc committee of member states has to be consulted about the supplementary measures decisions before any further money can be paid to us. The committee meets tomorrow, Thursday. The Foreign Secretary has urged French and German Ministers not to obstruct its work.

Attitudes of other member states

A. | 11. Since 25 November when my Private Secretary sent Michael Alexander a background note on this issue, the French position seems if anything to have hardened. The French representatives have now argued explicitly in COREPER and elsewhere that the 30 May agreement provides for a minimum net contribution by the UK, not a minimum net refund. On this basis, they contend that we have already received more than our total entitlement to refunds for 1980 and should not, therefore, receive any more (see further paragraph 3 above). They are also arguing strongly against our receiving any advances for 1981. France contributes about 30 per cent of our net refunds. But the primary French motive seems to be to link the issue of our refunds to the mandate negotiations.



12. The Germans have continued to insist in COREPER on discussion in the Council on the minimum net refund issue, in accordance with the agreed entry in the Council minutes of October 1980 (see paragraph 4 iv. of the background note). They contribute about 40 per cent of our net refunds and their uncorrected net contribution has turned out significantly larger than foreseen on 30 May last year. They too are evidently tempted by the thought of linking the refunds issue with the mandate negotiations. But it is less clear how far they want to press the matter.

13. The other member states seem, for the time being at least, prepared to acquiesce in the Commission's immediate proposals.

Next steps

14. Our short term objectives must be to secure payment as soon as possible of (a) the balance of the 1981 budget provision for our 1980 refunds (some 211 million ecus gross) and (b) supplementary measures advances for 1981.

15. I hope we can rest on inertia to secure the refunds for 1980 and the two transfers (paragraph 5 (i) and (ii)). As explained above, the Commission's proposals will prevail automatically on 21/22 December, unless reversed by the Council. If other member states demand a Council vote, I would propose to make very clear the potentially serious political implications in the UK if the rest of the Community appears to be re-opening the 30 May agreement.

16. Obtaining Council agreement on advances for 1981 will be more difficult and present indications are that we should lose in the Council if a vote were taken this week. Yet we cannot obtain these advances for 1981 without a Council decision (paragraph 7 above). That points to bringing the matter to ECOFIN on 14 December, since that is the only suitable occasion left this month and Sir Michael Butler needs instructions tomorrow on whether to inform his colleagues that this issue will be on the draft agenda.

17. I myself see a strong argument for putting it on the agenda, namely that it would be better for us to be voted down than to give up our



case without fighting it through to a vote. Better a public grievance than an ignominious surrender. To concede that our refunds should be paid even further in arrears than they are already would not only cost us real money and set a bad precedent; it would also cast doubt on our firmness of purpose and encourage others to believe that we were prepared to renegotiate the refunds arrangements. (We might, however, agree to take 150 million ecus of advances only, instead of the 200 million ecus figure envisaged by the Council last October.)

18. On the other hand, a vote against us would bring the present disagreement right out into the open, and so risk public misunderstandings. Unfortunately it would coincide with the informal meeting of Foreign Ministers in London. It might only produce an unhelpful hardening of positions.

19. The compromise I propose is to ask our Ambassador to give notice in COREPER tomorrow that I shall want to raise the matter over lunch when ECOFIN meets. At the lunch, I should then make two main points:-

- (i) We look to the Council to proceed as envisaged in the agreed Council Minutes entry of October 1980, which committed the Council to consider the scope - in practice, the budgetary scope - for at least 200 million ecus of advances for the UK this year. There is no question that such scope exists.
- (ii) Payment of advances would in no way prejudice the position of any member state with regard to our total entitlement. What is at issue is simply how far in arrears the refunds are made.

After lunch, I would sum up the discussion for the Council record. If there is sufficient goodwill, I would put the matter to a vote.

20. If not, I would let it rest, and redouble the efforts we are already making to persuade the Commission to make proposals to enable



the 150 million ecus provision for advances in the 1981 budget to be carried forward into 1982 so that it is not lost altogether. If they do, their proposals will prevail unless overturned by the Council.

21. As and when others raise the 'minimum net refund' issue, I propose that we should take the line at Annex C. This takes account of the legal advice at Annex D.

22. If we run into serious trouble, we shall need to consider how to react further. There are various options. But sufficient unto the day.

23. I am copying this minute to the Foreign Secretary and to Sir Robert Armstrong.

G.H.

9 December 1981

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ANNEX AUK BUDGET REFUNDS FOR 1980 AND 1981
(Minimum net refund interpretation)

Million ecus (rounded)

	<u>1980</u> <u>Budget</u>	<u>1981</u> <u>Budget</u>	<u>1982</u> <u>Budget</u>
<u>Amounts due for 1980 and 1981</u>			
Net	1175	1410	..
Gross	1438	1805	..
<u>Budget provision</u>			
Financial mechanism	-	469	-
Supplementary measures (except advances)	-	775	1654
Supplementary measures advances	194	150 (Ch.100)	-
Total	194	1394	1654
<u>Payments received to date from each</u> <u>budget</u>			
Financial mechanism	-	352	-
Supplementary measures (except advances)	-	681	-
Supplementary measures advances	194	-	-
Total	-	1033	-
<u>Balances due</u>			
Financial mechanism	-	-352	-
Supplementary measures switched from Financial mechanism	-	469	-
Other Supplementary measures (except advances)	-	94	1654
Supplementary measures advances	-	150	..
Total	-	361	1654 (excl.advances)

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ANNEX BMINIMUM NET REFUND AND CONTRIBUTION INTERPRETATIONS COMPARED

(million ecus)

	<u>1980</u>		<u>1981</u>	
	<u>MNR</u>	<u>MNC</u>	<u>MNR</u>	<u>MNC</u>
1. Net refunds entitlement for 1980 and 1981	1175	902	1410	775
2. Gross entitlements corres- ponding to (1)	1438	1104	1805	992
3. Gross amounts received to date	1227		-	
4. Gross amounts still due	211	-123*	1805	992

*Repayment

LINE TO TAKE ON MINIMUM NET REFUND

- In the UK view, the 30 May agreement provides unequivocally for a fixed net refund to the UK for 1980 and 1981 unless our uncorrected net contributions exceed the projections mentioned in the agreement. This view is based on historical as well as legal arguments.

- Historical arguments. We argued strongly in the negotiations leading up to the 30 May settlement for a fixed net contribution. Other member states argued strongly for a fixed refund. We eventually conceded the point - on the understanding that if our actual uncorrected net contribution exceeded the Commission's projections, the difference would be split between the UK and other member states. The final stages of the negotiation were thus specifically concerned with the size of our refunds. It is unreasonable for other member states to change horses now.

- Legal arguments.
 - a. The agreement states (paragraph 3) that 'the United Kingdom contribution, based on the e' calculations, is reduced for 1980 and 1981 2585 meua (1175 + 1410)'. Our corrected net contribution is clearly treated as a residual witness the fact that it was left unrounded at 609 million ecus for 1980.

 - b. The agreement provides (paragraph 4) for our refunds to be increased in certain circumstances. There is no provision whatever for them to be reduced. If the Council had wanted to make such provision, it could have done so.

 - c. The only reason why the agreement mentions net contribution figures as well as the net refund figures is in order to define the circumstances in which our refunds are to be increased under the 'risk sharing' arrangement.

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- October 1980 Council Minutes entry. The Council Minutes for October record that member states reserved their positions in the event of a shortfall in our uncorrected net contribution. But this cannot possibly displace the obligation in the Council agreement of 30 May. Nor is it any clear aid to the construction of that agreement. It may create an obligation to discuss the new situation; but discussion must start from the proposition that the agreement continues prima facie to apply.

- Political. UK Ministers accepted the 30 May agreement only in a spirit of compromise, and as a temporary arrangement. The agreement left the UK as a substantial net contributor even though it is one of the less prosperous member states. If events have turned out in such a way that our corrected net contribution will be less than earlier expected, that is a matter for satisfaction - and not a ground for re-opening the agreement. If other member states persist in seeking to re-open the agreement, the political consequences in the UK could get rapidly out of hand.

Communications on this subject should
be addressed to

THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref: 400/79/289

8 December, 1981

Dear Richard,

EC BUDGET: UK REFUNDS

1. I am writing to record the advice which the Attorney-General gave orally in conference on Wednesday 2nd December when you, together with Karl Newman, Michael Saunders, Fred Burrows and Andrew Edwards, discussed with him the legal problems identified in EQR(81)27.
2. The Attorney-General agreed with what I think was the view of all present on the central issue of law, namely, that we have perfectly respectable arguments - indeed, strong arguments - for contending that paragraph 3 of the Council's Conclusions of 30th May 1980 (which was repeated in paragraph 3 of Annex II to Council Regulation 2744/80 of 27 October 1980) is the "dominant" provision of the instrument, in which case we are entitled to the refund specified in it even if our actual contributions for 1980 and 1981 turn out to be less than was originally estimated. In coming to this view, the Attorney-General had regard to the legal considerations set out in the revised version of Annex C to EQR(81)27 and also to the further consideration, which Fred Burrows drew to our attention, that paragraph 10 of the European Parliament's Resolution of 18 September 1980 (commenting on what became Council Regulation 244/80) described the arrangements as ones "setting specific ceilings for national contributions" - as contrasted, that is, with specific levels.
3. The Attorney-General warned, however, that the contrary view, i.e. that the refunds envisaged by paragraph 3 of the Conclusions should be abated to the extent that our actual net contributions fall short of the contributions originally estimated, is by no means manifestly untenable. It is a view which he thought could conceivably commend itself to the European Court: he was not able to predict with any assurance how the Court would react on this question.
4. A further alternative interpretation of the legal position which the Attorney-General thought might possibly appeal to the Court is

/that

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ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

-2-

that the agreement recorded in the Conclusions failed altogether to deal with the situation in which we now find ourselves, i.e. that that situation is a genuine casus omissus. He considered that, if the Court took that view of the matter, it would be very unlikely to take it upon itself to legislate for the casus omissus by specifying what refunds we are now entitled to: it would almost certainly regard this as a political decision which could only be taken by the Council of Ministers.

5. In this context the Attorney-General considered the significance of paragraph 8 of the Council Minutes of October 1980. He took the view that this paragraph did not, as a matter of law, qualify the interpretation which should otherwise be placed on the Council's Conclusions of May 1980 and he therefore did not regard it as precluding us from maintaining our claim to be entitled to the full refund specified in paragraph 3 of the Conclusions. However, he thought that the Council Minutes clearly imported some obligation - its exact status was unclear - to enter into discussions with our Community partners for a resolution of the difference between us on this issue and he further thought that, whatever the inhibitions on the Court being told about, or taking formal cognisance of, these discussions, there would be a real risk that any failure by us to adopt a reasonable position during them would in fact become known to the Court and would incline it to give an unsympathetic hearing to our arguments on the strict legal construction of the texts.

6. Summarising the practical effect of these various conclusions, the Attorney-General advised as follows:

- (a) We have strong arguments, which add up to a very respectable case, for maintaining that we are legally entitled to the full refund specified in paragraph 3 of the Council's Conclusions.
- (b) However, it is impossible to predict what the European Court would decide if the issue were taken to it.
- (c) If the issue does get to the European Court, the Court's natural distaste for what it will probably see as a discriminatory arrangement in our favour will be increased if it appears that we have been unwilling to enter into discussions for an accommodation in pursuance of the entry in the Council Minutes or have adopted an unreasonable posture in those discussions.

/(d)

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be addressed to

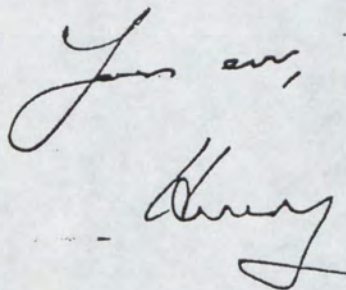
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ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

-3-

- (d) If the Court rejects both our view that paragraph 3 of the Council's Conclusions is the dominant provision and the alternative view that the factor which determines the size of our refund is the contributions actually found to be due from us, i.e. if it holds that we are now faced with a true casus omissus, it is unlikely that it will itself determine what the proper level of refund should be: it will almost certainly take the view that that issue requires a political decision by the Council of Ministers.

7. I am copying this letter to the others who were present at the conference.



H. STEEL

M J Kerry Esq CB
Treasury Solicitor
Matthew Parker St
London, SW1H 9NN

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10 DOWNING STREET

Prime Minister

MT

30 May Mandate

Minutes by Mr. Peter Walker and
Sir Robert Armstrong attached.

2. You instructed last week
that our approval on the Budget,
agriculture and milk should be
more fully worked out and agreed
by responsible departments.

3. The Foreign Secretary may want
to comment.

4. Thames, agree not to intervene
until the officials' report is available?

A. J. Lobs 9/12.

Ref. A06244

MR COLES

30 May Mandate: Foreign Ministers' Meeting

The Minister of Agriculture has minuted the Prime Minister today in response to the Chancellor of the Exchequer's minute of 3 December.

2. Mr Walker's minute makes a number of points on the tactics to be adopted at the special meeting of Foreign Ministers which will be following up the European Council. As usual the matter of greatest difficulty is milk where Mr Walker proposes that we might agree to nationally financed income subsidies for small producers. The other suggestions under consideration are the German approach to the co-responsibility levy with which the Prime Minister considered we might live, since it is less adverse in its effects than the Commission scheme, and the Chancellor's proposal set out in his minute of 4 December (paragraph 9).

3. Officials will be meeting on Wednesday 9 December to consider our approach to the meeting of Foreign Ministers and a report on the outcome will be submitted.

4. If the Prime Minister wished to intervene at this stage, she might comment that she would wish to see the budgetary, agricultural and political implications of these three approaches assessed before a conclusion is reached. But I think that she can probably wait to intervene until the officials' report is available.

REA

ROBERT ARMSTRONG

7 December 1981



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

From the Minister

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PRIME MINISTER

30 MAY MANDATE: FOREIGN MINISTERS' MEETING

I have seen copies of the minutes to you from the Foreign and Commonwealth Secretary and the Chancellor following our discussion on 2 December. I have also seen a copy of your Private Secretary's letter of 4 December recording your decisions on how we should proceed. You left for further consideration our approach on the budget and on agricultural problems, and it is on this that I should like to comment.

2. I agree with the Chancellor that if we could get guidelines which included the four essential requirements he sets out in his minute we should have taken a valuable step towards a satisfactory budget settlement, and one which would justify certain concessions (which I will discuss later) to the French in the agricultural guidelines. But I also agree with the Chancellor in not rating very highly our chances of securing an agreed set of guidelines at the Foreign Ministers' meeting.

No 3. My concern is therefore that we should give no more agricultural concessions to the French, however conditionally, until they have shown genuine willingness to move towards our position on the budget. We have already made two conditional concessions - on the import of cereal substitutes and on export contracts - without eliciting any corresponding move from the French. I suspect this means that they are following their usual method of negotiation: one of unyielding toughness right up to the last minute, pocketing each successive concession from their opponents and using it to justify an ever higher price for their ultimate agreement. I suspect that this is not merely the technique they adopt themselves but also the only one they understand, and that they regard all concessions from the other side, however conditional or qualified, as simply evidence of weakness.

/4. If this assessment ...

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4. If this assessment is correct, then our main purpose, I suggest, must be to persuade the French that we shall not move another inch towards them on agriculture without real movement from them on the budget; and that unless and until the eventual budget deal is agreed there can be no question of our agreeing to Council decisions on any of their agricultural aims (including 1982 prices). On Mediterranean agriculture we should ensure that the Italians as well as the French realise that we shall give nothing of substance except in the context of a budget settlement.

5. How might we best achieve these results at the Foreign Minister's meeting? We start at a disadvantage, it seems to me, in always having to discuss agriculture before we discuss the budget. I can see that if the Chair were to suggest reversing the order it might only open up a sterile procedural argument; but the Foreign and Commonwealth Secretary may nonetheless wish to consider this. If we have to stick to the usual order, then in my view it will be important to take a very hard line on milk and the other agricultural items and to avoid discussing any new texts until all three chapters have been discussed. Only if we see a willingness emerging to meet the Chancellor's minimum requirements on the budget guidelines should we make any move from our present stand on agriculture.

6. Turning to the substance of the agricultural chapter, I take a rather different view from the Chancellor. I believe that any guidelines acceptable to France and Germany are more likely to be prejudicial than helpful to us in future negotiations on the common agricultural policy. As to the three main points at issue, I agree of course that we should stick with Chancellor Schmidt's text on the limitation of agricultural expenditure, because we need German help in the budget negotiation. But I do not share the Chancellor's confidence that a tough guideline on agricultural expenditure would necessarily prove a good thing for us. I suspect it would simply increase the

/pressures for ...

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pressures for higher co-responsibility levies and for cuts in direct subsidies - such as the UK butter subsidy, the sheepmeat premiums and the aids to beef producers - from which we derive most benefit. It would therefore not greatly concern me if we had in the end to accept a somewhat weaker formulation on this.

7. On Mediterranean agriculture, I agree with the Chancellor that we should in no circumstances go beyond a general reference to improving the regimes in question; and that we should seek if possible to limit any reference to "improvements for the Mediterranean regions" rather than in the provisions for the individual commodities. The essential aim here of course is simply to keep down the cost; and we should have German and Dutch support in doing so.

8. Milk is the real difficulty. It is quite clear that the French are set on securing discrimination in favour of the small producer, first on milk and later on other commodities (the Commission are already proposing a similar discrimination in the beef sector). Discrimination of this kind is diametrically opposed to British interests. Because small producers account for a tiny proportion of our agricultural production but a massive proportion of French and German production, any discrimination in favour of small producers builds in a competitive advantage for Continental agriculture over British. If it were proposed to adopt Community policies that gave a competitive advantage to Continental producers of motor cars or electronics over British producers, we would not dream of accepting it: it is in my view every bit as unacceptable in the agricultural field. Certainly our supporters in the country would not understand our going along with it; and we committed ourselves in our Manifesto not to do so.

9. How then are we to resolve the difficulty with the French? In my view we should not at this stage accept the continuation of the existing co-responsibility levy of 2.5%, which is against our interests: no-one will be accepting similarly detailed

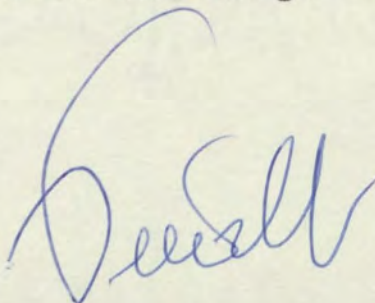
/decisions on the budget ...

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decisions on the budget and we should not concede detailed decisions on agriculture. We should most certainly not accept the principle that the co-responsibility levy should "take account of the situation of small producers": That is an invitation to discriminate against us (and the slightly watered-down German version is as unacceptable in principle as the Commission's). The furthest we should go, in my view, is to show a readiness to consider the possibility of temporary income aids of a social kind to small milk producers, wholly or at least mainly financial by member states themselves. The distinction I draw is between Community measures on price or levy, which build a competitive advantage for small producers into the regime itself and are unacceptable for that reason; and temporary income aids for those who cannot support the full rigour of the milk policy, which although undesirable could be just about acceptable if they were mainly nationally financed and under strict Community control. I would not object to general wording which could be interpreted as going no further than this; but only, of course, if we secured the Chancellor's four requirements on the budget.

10. The status of the text on all the other agricultural issues, including the modulation of guarantees, cereals and national aids, is obscure. I hope we can agree that no further concessions need or should be made on them.

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



PETER WALKER
7 December 1981

17 DEC 1981



1



10 DOWNING STREET

From the Private Secretary

4 December 1981

Dear Brian,

30 MAY MANDATE

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute to her of 2 December on this subject. She has also seen the Minister of Agriculture's minute of the same date, and the Chancellor of the Exchequer's minute of 3 December.

In the light of these minutes, the Prime Minister has decided:-

- (a) that it would be right to hold a Gymnich-style meeting of Community Foreign Ministers during the British Presidency to carry forward the negotiations on the Mandate which were begun at the recent meeting of the European Council;
- (b) that the Chancellor of the Exchequer's minute under reference constitutes a satisfactory basis for a negotiating brief on the Budget problem;
- (c) that our approach on the Budget and on agricultural problems, specifically on milk, should be more fully worked out and agreed among the responsible Departments in the days ahead so as to provide the Foreign and Commonwealth Secretary with a comprehensive brief. On milk, the Prime Minister considers that the German approach described by the Minister of Agriculture, i.e. the exemption of a certain percentage of milk production from the levy up to a ceiling, might be one with which we could live;
- (d) that the Foreign and Commonwealth Secretary should be accompanied to the Foreign Ministers' Meeting by two officials, one of whom should be Sir Brian Hayes.

I am sending copies of this letter to John Kerr (HM Treasury), Kate Timms (MAFF), and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Brian Fall, Esq.,
Foreign and Commonwealth Office.

1 Euro Pp
Budget



10 DOWNING STREET

From the Private Secretary

3 December 1981

European Council: 30 May Mandate

The Prime Minister has seen your letter to me of 1 December on this subject. As I have already told the Department on the telephone, she has agreed that the Secretary-General's report may be circulated in Brussels.

I am sending copies of this letter to John Kerr (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

62.

Ronnie Ransler -

(1)

30 May Mandate. 1/5, Print, 3/41

1 attach: -

- (a) the Chancellor's minute
- (b) a minute from Mr Walker
- (c) a comment from the Cabinet Office on Mr Walker's minute
- (d) the Foreign Secretary's letter & minute (which you have already seen).

2. The decision which has to be taken now (i.e. tonight or tomorrow) is whether, on the basis of an analysis such as that provided by the Chancellor, you are prepared to let the Foreign Secretary negotiate with his colleagues later this month or not. The objective of such a negotiation would not be to reach substantive agreements. It would only be to narrow the scope of the negotiation so that in the weeks ahead discussions took place ~~in~~ within clearly defined limits.

This is a process which is going to have to
take place sooner or later: it would be impossible
to proceed from the present position to a final
agreement at one meeting regardless of the level at
which it was held. The question is whether
you want the process of narrowing down, started
by you last week, to continue before Xmas or
not. As I told you a moment ago, it is my
instruction that if you do not give the Foreign Secretary
authority to pursue a negotiation on the lines sketched
out by the Chancellor, he will not wish to chair
the meeting. (He is, I imagine, as well aware as
anyone that the chances of success are slight but
would not want the meeting held unless a real
effort to make progress was to be made.)

If you agree that the Chancellor's minute
does provide a basis, the details of our negotiating
position would be worked out & refined next week:

the decision needed before the weekend is whether the meeting is to be held or not. The Foreign Secretary would, of course, be accompanied at any meeting by a senior NAFF official, probably Sir B. Hayes.

Agree: -

- ① that the Chancellor's brief can be further refined to provide a negotiating brief & that it contains the basic elements of such a brief;
- ② that you would be prepared for the Foreign Secretary, working to such a brief, to continue the effort which you began last week to ^{agree} ~~agreed~~ guidelines for the work between now & the next Council in March;
- ③ that the Foreign Secretary should be accompanied at any such meeting by a senior NAFF official as one of the two officials accompanying him?

If you are not content to agree something along these lines, you should, I think, see Lord Carnigton before the weekend & agree with him how to present the postponement of the meeting on Monday.

Paul
3/11



Agree this
Budget
Approach, with us need
M. J. take advice?
replies
A

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

PRIME MINISTER

30 MAY MANDATE : FOREIGN MINISTERS' MEETING

Since I had to leave before the end of our discussion on 1 December, I would like to set out again the case as I see it for attempting at the meeting of Community Foreign Ministers to secure guidelines of the right kind on the three chapters of the Mandate.

2. I am very anxious indeed to exploit to the full all the negotiating levers available to us to achieve a satisfactory settlement of the Budget problem. I would not support a renewed attempt to secure guidelines in the right terms if I thought that this would weaken our bargaining position in the spring or summer when a more direct and determined attempt to obtain what we want on the Budget will have to be made. I am, however, convinced that an agreement on the right guidelines would be positively helpful to us in the final negotiation - always provided we maintain, as you very clearly have done, the principle that there can be no agreement on the parts of the Mandate without agreement on the whole; that we do not trade words on the Budget part for substance elsewhere and that the guidelines themselves are, as I say, in the right terms.

3. On the Budget wording, we have four minimum requirements: valid in themselves, and designed also to make it more difficult for others to run the campaign for something "temporary, exceptional, degressive and arbitrary".

4. The four requirements are these:-



- (i) The guideline must include a reference to avoiding or remedying "unacceptable situations" for Member States. This phrase has a Community pedigree. It goes back to a formal communication by the Six to the UK at the time of our accession negotiation. We exploited the phrase in the earlier negotiations. President Mitterrand would like to get rid of it, but we cannot afford to let him do so. The Commission now exclude the phrase, no doubt deliberately and perhaps under the influence of Paris. We must have it in. It is right in principle: solutions must last as long as the problem. It is against the "temporary" etc. school;
- (ii) the budgetary corrective should not be defined as a special ad hoc arrangement for the UK. It should be defined in a way which would make it applicable to others if they found themselves in a comparable situation. The UK is not to be fobbed off with palliatives that are against the spirit of the Community. The way would also then be clearer for discussion of the Treasury's scheme;
- (iii) relative prosperity must be recognised as an objective criterion for the budgetary corrective. This is crucial. It provides the basis for our argument that the present outcome is perverse, and that the costs of the Community should be fairly shared. It is enshrined in the Financial Mechanism. It was the concept of my Hague speech approach. Again it contests the "ad hoc" school;
- (iv) the review clause must be worded so that the budgetary corrective is presumed to continue unless the review produces grounds for changing it. We do not want



another temporary agreement for a short period, followed by another argument. The onus of proof has to be placed on those who wish to change the corrective not those who wish to continue it. But we should not engage battle yet on the actual duration, since that would merely invite the others to stand on 3 years.

5. I am, of course, no expert on the farming side. But it seems to me that there can be a perfectly sensible relationship between the key Budget points and the agricultural aspects of the guidelines. There is no reason why we should approach this solely in terms of making concessions to French and Italian demands. We have important objectives of our own for the reform of the CAP, which would be furthered if we got them reflected in the guidelines.

6. For example, on prices it will be of real advantage to us domestically to secure the guideline which you discussed at the European Council and which makes it clear that in future the need to reduce surpluses and take account of price levels in other countries is to be given equal weight with securing a fair standard of living for producers. We could make good use of the guideline on bringing Community cereals prices closer to those in competitor countries.

7. I would attach particular importance to the guideline limiting the growth of agricultural expenditure in the terms proposed by Chancellor Schmidt (which lay a clear obligation on the Council and Commission to take the necessary measures to ensure the guideline is observed) and firmly rejecting the French and Danish alternatives. Similarly we need a guideline on limiting national aids in the terms which Peter Walker envisaged. We should negotiate hard on all these UK objectives.



8. As for the French and Italian demands, we should follow the rule that the guidelines must be no more precise (and preferably less) than those we are seeking on the Budget chapter. I accept of course that there can be no substantive concessions on agriculture in the absence of a fully worked out and satisfactory budget settlement. But we can identify the areas in which we know that there would have to be some movement towards the French and Italians as part of a general settlement. The present drafts dealing with cereal substitutes and long-term export agreements go no further than this. They are in line with what we envisaged before the European Council, and I think they are acceptable.

9. The outstanding issues are then small milk producers and Mediterranean agriculture. The Commission's new proposal on milk refers only to the continuation of the existing co-responsibility levy "taking account of the situation of small producers". This falls short of a substantive commitment to exemption for small producers from the ~~co-responsibility~~ levy, and might, therefore, be acceptable. If the French sought to insist on a more precise reference to exemption, our line should be that this could be considered by the Agriculture Council, but only if it was warranted by the price decisions and if the exemption were limited to part-time farmers and were largely or wholly financed by Member States. This would minimise any adverse effect on the UK net contribution. It would also deter Member States from being generous with the exemption and so avoid setting significantly unhelpful precedents for the future development of the CAP.

10. On Mediterranean agriculture we should in no circumstances go beyond a general reference to improving the regimes in question: and, at least in the first instance, we should seek to limit any reference to "improvements for the Mediterranean regions" rather than in the provisions for the individual products. This would leave it open for us to argue later for other less costly forms of assistance, through structural



expenditure or perhaps EIB loans.

11. None of this would amount to making a substantive concession before we had substantive satisfaction on the UK's Budget contribution.

12. I do not rate very highly our chances of securing an agreed set of guidelines at the Foreign Ministers' meeting. I do believe however that the effort itself would be to our advantage. At the next and more difficult stage of negotiation nobody would be able to say that we had not made a determined effort, both at the European Council and at the Foreign Ministers' meeting, to secure agreement. By making these efforts we do something to break up the unity of the front against us on the type and scale of Budget solution which we want.

13. I hope therefore that we can agree that an attempt to secure guidelines of the right kind should be made at the Foreign Ministers' meeting, that the Budget guideline we seek should incorporate the four essential elements referred to above, and that we can, without damage, approach the agricultural issues in the way I have suggested.

14. I am copying this minute to the Foreign and Commonwealth Secretary and the Minister for Agriculture, Fisheries and Food.

*Approved by the Chancellor
and signed in his absence.*

*L. P. Lewis
2/11*

(G.H.)

3 December 1981



C

CONFIDENTIAL

Qz.02398

MR ALEXANDER

EUROPEAN COUNCIL: FOLLOW UP TO MANDATE DISCUSSIONS

1. The Prime Minister may find it helpful to have the following commentary on Mr Walker's minute of 2 December reporting on his contacts with the Germans and the Danes.

2. He says that the Germans are opposed to the French formula for discriminating in favour of small milk producers. This may be a reference to French ideas that small farmers producing less than x kg would be exempt altogether from the milk levy. This is not the same as the Commission proposal under which all milk producers would be exempt from paying the co-responsibility levy on the first 30,000 kg of milk production (equivalent to the milk from 7-8 cows). The Germans object to this approach because it would benefit part-time dairy farmers with small herds who may also have significant income from other employment. While the Germans object to any discrimination in favour of small producers, they could accept an exemption for a certain percentage of milk production from the levy up to a ceiling. They have not suggested firm figures; but the effect would be to reduce the relative value of the exemption for the smallest (part-time) enterprises and so to some extent reduce the bias against the UK. If, for example, the German approach exempted one fifth of milk production up to a limit of 20,000 kg per enterprise (ie a progressive exemption on herds up to about 20 cows) the effects are estimated to be:

/over

CONFIDENTIAL



CONFIDENTIAL

	Existing levy	Commission approach	German approach
Percentage of total levy revenue paid by			
UK	16%	22%	17%
Germany	24%	18%	23%
France	26%	24%	25%

Percentage of milk
production on which levy
collected

UK	90%	93%
Germany	51%	82%
France	63%	84%

3. The Benelux countries want to exempt only those producers whose main livelihood comes from milk but this would be administratively very difficult. The French also appear to have in mind positive discrimination against the larger dairy farmers by imposing an additional levy on milk production above 120,000 kg (30 cows) on each holding. This would be a highly discriminatory arrangement and obviously quite unacceptable to us as well as to others. The UK would pay the levy on 61% of its milk production, France 6%.

4. As regards Denmark, they have been arguing for some time that all decisions should be put off until the Spring. But that is because they have been totally negative on the UK budget problem and argue that the only way to adjust our net contribution is through the restructuring of the budget, including reform of the CAP. This is totally unrealistic.

M D M FRANKLIN

3 December 1981



COMPTROLLER

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10 9 8 7 6 5 4 3 2 1

23 DEC 1981

010

cc - Cabinet Office
B

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



From the Minister

CONFIDENTIAL

2 December 1981

PRIME MINISTER

Robert Munn

Further to our conversations this morning, I have today spoken to the Germans and the Danes. The Germans have informed me that they could not accept the French formula on discriminating in favour of small producers. They could accept a move to exempt a percentage of each holding's milk from levy, but with a limit on the quantity thus exempted. They see this as ensuring that the part-time farmer gains less advantage from the exemption than the full-time. The limit on the quantity exempted would however still mean that this discriminated in favour of small producers. They stated, however, that they would basically prefer there to be no discrimination between small and large producers.

On the question of discriminating against the larger farmer, again advocated strongly by France, they said that they consider this would prove to be impossible.

They are deeply concerned about opening up the prospects for Mediterranean products and intend to continue to pursue a hard line on this topic. They have stated, however, that they will be working during this coming week upon wordings and that they will confer again with me during next week.

I spoke to the Danish Minister who, I might say, sounded somewhat pessimistic about the prospects of his Party winning the Election, using the phrase "I am doing well in my district but I am worried about what is happening in the rest of the country". But he stated that his Government would remain totally firm on their objection to discrimination in favour of the small producer and were relieved to hear that we were continuing a hard line on this topic. He also stated that it was the view of the Danish Government that no progress would be made and no settlement would take place prior to April.

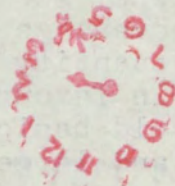
I am copying this minute to Peter Carrington and Geoffrey Howe.

Peter Walker

PETER WALKER



ශ්‍රී ලංකා රජය



22 DEC 1981



Max - no.
There is too

10 DOWNING STREET

Prime Minister.

must delete.
Very much better
revisions
must

I said to you a moment ago ^{perhaps} that I would not put the Foreign Secretary's minute to you until the Chancellor had sent the letter he promised this morning. However the attached letter has since arrived which, clearly, you should see this evening.

~~It~~ Lord Carrington seems to be saying that he feels strongly that the best course is to go for guidelines at a meeting before Xmas; & that if you disagree with this, the meeting should be cancelled.

Are you prepared, on the basis of his minute, to let the F.C.S. try for guidelines? And



Foreign and Commonwealth Office

London SW1A 2AH

2 December 1981

Jean Margard

I have written you a minute, which I am copying to Geoffrey Howe and Peter Walker, in the light of our meeting this morning on the Mandate. The purpose of this personal letter is to impress on you my very serious worry about the way in which things were left.

It is quite clear that our colleagues in the Ten, and Chancellor Schmidt in particular, are expecting us not only to call the informal meeting of Foreign Ministers but to make a serious effort to reach agreement on recommendations which will carry the work forward. What they want is one more heave to pin down the progress made under your chairmanship at the European Council and to give heads of government a firm basis on which to reach agreement on a detailed settlement next year. With the possible exception of the French, all our partners see the Foreign Ministers' job as getting agreement on some useful guidelines. This is what they all had in mind at the end of the European Council.

We can not guarantee success: the French or some of the smaller countries may continue to block progress. But I feel very strongly that it is politically essential for us, both as Britain and as the country holding the Presidency, to go into the meeting and to be seen to run it with the intention of getting results. I do not see how I can reasonably be expected to summon my colleagues and to chair a special meeting of Foreign Ministers at

/which

The Rt Hon Margaret Thatcher MP



which we ourselves are not prepared to make any effort
at all to reach agreement.

[Handwritten signature] ²
Pete

(CARRINGTON)



PM/81/60

PRIME MINISTER

The Mandate

1. In the light of our discussion this morning, I thought it might be useful to set out the main considerations affecting the organisation of the ad hoc, informal meeting of Foreign Ministers which the European Council decided should take place at an early date to try to resolve the four main outstanding problems on the Mandate.
2. We have I think four broad tactical alternatives:
 - i. to try to get a package agreed here and now on the budget. But that would only be feasible, if at all, on the basis of the current French offer - a lump sum refund for three (or possibly four) years on a degressive basis and giving us no more than under the 30 May arrangement. And we would be asked for precise, detailed commitments on milk and other agricultural points;
 - ii. to organise a meeting before Christmas with the aim of getting agreed guidelines, if we can; and, if we cannot, of ensuring that the blame for failure is placed elsewhere;
 - iii. to organise a meeting before Christmas at which we show no give in our position on any of the agricultural items, in which case there will be no agreement and we will very probably incur the full blame for it;
 - iv. to postpone the meeting until the Belgian Presidency.
3. The first alternative is certainly not the long term solution we are seeking. Both the third and fourth

/alternatives



alternatives seem to me likely to damage our prospects in the substantive negotiations next year and to slow down their progress. The minimalist positions on the budget, taken up by the French and others, will remain on the table. We will be criticised for the way we have handled the follow-up to the European Council; and national positions will be sharply and prematurely polarised. We will alienate the Germans who set great store by an early agreement on guidelines. If we follow the fourth alternative there is a real risk that the Belgian Presidency will continue to try to agree on guidelines, when we will want all the focus to be on substantive solutions.

4. I accept that any judgement between the alternatives must rest on the relative value we attach to getting budget guidelines and to avoiding guidelines on milk and Mediterranean products. Like the Chancellor, I believe the budget guidelines he has in mind would be well worth getting. I am less clear about the risks - political or financial - to us from what we might be asked to accept on the two agricultural points. The countries like us, which are resisting concessions, will neither need nor be prepared to go beyond very general formulations which will leave a lot to play for at next year's price fixing.

5. In my view alternative ii. best corresponds to our interests. We would have the chance to get budget guidelines of value to us in the detailed negotiations to follow. Any guidelines we accepted on milk and Mediterranean agriculture could only be implemented in the price fixing negotiation next spring. We would have a chance of getting a guideline on limiting agricultural expenditure which would be helpful. And finally we would get credit for having rounded off an effective and fair-minded Presidency.



6. If we can agree to proceed as I suggest, then I think a meeting of Foreign Ministers only, on 15 or 21 December, would serve us best. (The former is the preferred date for most others but has the inconvenience of being the day before you go to the Parliament in Strasbourg.) And we ourselves will need to decide on our minimum requirements for budget guidelines and the kind of flexibility we could show, in return for agreement to them, on formulations for milk and Mediterranean agriculture.

7. I am sending copies of this minute to the Chancellor of the Exchequer and to the Minister of Agriculture, Fisheries and Food.

A handwritten signature in blue ink, appearing to be 'C' with a flourish.

(CARRINGTON)

Foreign and Commonwealth Office
2 December 1981

PRIME MINISTER

The difference is not worth fighting about (7)

A REPORT ON THE MANDATE DISCUSSIONS AT THE EUROPEAN
COUNCIL

A.

I attach the draft text of which I mentioned to you this morning. There are one or two points to make about the text:-

(a) as you will see it is a report from the Secretary-General to the Council. Strictly speaking the Secretary-General need not have cleared this with us. His action in doing so has, I understand, already caused some unhappiness in Brussels. This is referred to obliquely in the Secretary-General's forwarding letter to Michael Butler;

(b) the covering letter from the Secretary-General, which I have had typed, is intended to protect the position of the individual members of the Council. As you will see, it stresses repeatedly the "provisional" nature of whatever understandings or agreements were reached at the Council. It seems to me to leave a good deal of room for manoeuvre to everyone;

(c) officials from the FCO, the Treasury and MAFF, have been through the text. They suggested a limited number of amendments. These are incorporated in the attachments to this minute. The only point on which there was any difficulty related to page 13 of the report. MAFF would have preferred the lead in to para. 3 to have read as follows:-

/"The European

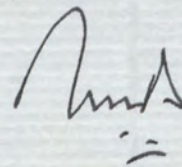
"The European Council considers a prudent price policy to be necessary, at the same time taking account of:

- the objectives of Article 39 of the EEC Treaty, including the need to ensure a fair standard of living for the agricultural community;

- the need to "

This of course means something slightly different from the Secretary-General's text. But it does not seem to me that the difference is a matter of major importance. The Secretary-General is reluctant to accept the amendment and MAFF do not propose to press the point.

Content that the text should issue as it now stands (it would be better not to make further changes unless you feel particularly strongly about them: there is some risk of our appearing to undermine the neutrality of the Council Secretariat)?

A handwritten signature in dark ink, appearing to be 'A. ...', with a small horizontal line underneath.



Prime Minister 1
Content for the Council Secretariat to circulate
this report, subject to the amendments listed
overleaf? The report is at A and I have pencilled
the FO's comments
into it.

Foreign and Commonwealth Office

London SW1A 2AH

1 December 1981

WM
1/12

Dear Michael,

European Council: 30 May Mandate

We have just received from the Council Secretariat the enclosed draft report to the Council on the 30 May Mandate discussions at the European Council. The Secretariat is keen to circulate this soon, if possible today, to delegations in Brussels. In the annex, the changes from the text circulated before the European Council are side-lined.

Sir Michael Butler and the officials concerned in this Department, the Treasury and the MAFF, have looked through the text and have suggested a number of amendments which are listed in the attachment to this letter. The most important are those on the covering note, in particular, the replacement of the reference to 'clear agreement' in paragraph 3 by a reference to 'provisional agreement', and the addition of a reference to the Presidency summing-up on the economic and social situation. Subject to these points, Departments agree that this report presents a fair and balanced account of the European Council's discussion. I should be grateful to know whether the Prime Minister, as Chairman of the Council meeting, is content for the Council Secretariat to circulate its report subject to these amendments. If at all possible, I should be grateful for a reply during the course of today.

I am copying this letter to John Wiggins (HM Treasury) and Kate Timms (MAFF) and Sir Robert Armstrong.

Yours ever.

(F N Richards)
Private Secretary

Francis Richards

M O'D B Alexander Esq
10 Downing St

Brussels, November 30th, 1961

Sir Michael BUTLER
Ambassador
Permanent Representative of the
United Kingdom to the
European Communities
Rond-Point Robert Schuman, 6
1040 - Brussels

Dear Michael,

The enclosed draft of a report to the Council on the Mandate discussions of the European Council follows scrupulously what was agreed between us and what was agreed and not agreed by the Heads of State and Governments.

Delegations are impatient to get the text, and I think there is considerable advantage in circulating it to-morrow morning.

I was therefore a little worried to hear that you feel it necessary to send it to London for approval. I also feel that - apart from this being unnecessary for reasons of substance - it would be in some contradiction of the idea of a report from us, rather than from the Presidency.

Your own comments are - of course - an entirely different matter!

*Yours
Jean*

REPORT FROM THE SECRETARY-GENERAL TO THE COUNCIL

Mandate of 30 May -

State of negotiations following the meeting of the European Council in London 26/27 November 1981

1. During its session on 27 November the European Council considered both the draft conclusions contained in 10910/81 and the result of the work of the drafting group (doc. dated 27 November 1981).

2. The European Council agreed that the fulfilment of the 30 May Mandate required agreement on all three chapters: development of policies other than the CAP, the Common Agricultural Policy and budgetary problems. Any concession made on any particular point was therefore provisional until agreement had been reached on the whole text.

3. On some points the European Council reached provisional agreement. The provisionally agreed texts are incorporated in the draft conclusions in Annex A and marked with a line in the margin. On other points, where agreement was not reached, a general consensus emerged on the text to be used as the basis and the outstanding points to be settled in further negotiations. This text is included in the draft conclusions in Annex A with indications on which points disagreement still persists. On some points the question was left open, but some indications were given on which questions had to be settled before final agreement could be reached. The President in summing up on the European Council's discussion of the Economic and Social Situation in the Community (Annex B) noted that this was also relevant to paragraphs 1-7 of Chapter I of Annex A.

(ie. in the left hand margin: all other lines should be ignored.)

4. The President of the European Council concluded at the end of the discussion of the Mandate that:

/ (a)

- (a) The European Council had a thorough discussion on all three chapters of the Mandate - development of Community policies, the CAP and the structure of the budget - and reached a considerable measure of understanding. Any agreement on any point is subject to agreement on the whole.
- (b) Four main issues remain unresolved:
- the milk problem
 - guidelines on agricultural expenditure
 - Mediterranean agriculture
 - the budget problem.
- (c) The European Council agreed that Foreign Ministers would meet informally, if possible before Christmas, but if not, in January. They will consider these issues and make recommendations to the Heads of Government, which the latter hope to be able to approve without a further meeting (written procedure).
- (d) Once a political solution has been found, the Council will adopt the necessary formal decisions.
- (e) Attendance at the informal meeting will be restricted to Foreign Minister plus two others.

PREAMBLE

1. The European Council recalled the fundamental objectives of peace, freedom and progress on which were based the original decision to establish the Community and to put behind them the excesses of economic and political nationalism which had been the cause of great suffering to their nations. The history of the last thirty years had shown the major contribution which the Community had made to the achievement of these objectives.

Collaboration and integration between their economies were now realities which no Government could disregard. The welfare and progress of each of their peoples was more than ever dependent on the harmonious development of the Community itself and of the other nations in it.

2. It recognized that developments on the international scene, both in the economic and in the political fields made it essential to strengthen the role of the Community and of its ten Member States acting in concert at all levels.

If this did not happen, there was a real risk of a process of regression in which national interests would prevail over the general interest of the Community. Moreover the Community and its Member States increasingly had responsibilities towards the outside world, in particular to the peoples of the Third World for whom it provides the largest market and also the largest source of official Government aid.

3. It was in this overall context that the European Council reviewed the development of Community policies in conformity with the Decision of 30 May 1980 and on the basis of the Commission's report of June 1981.

4. It concluded that, despite the important progress made, the Community's development had been uneven, as the Commission had recognized in its report. If the Community was to live up to the hopes and aspirations of the people of Europe, and to

recover its dynamism, European integration must be strengthened and diversified. The Community needed now to build on the achievements of the common agricultural policy and the tariff-free market by removing the remaining obstacles to the development of trade and by finding effective answers to the current social and economic problems which faced all Member States, concentrating its resources where they are most needed. The harmonious development of the Community required that Community instruments and mechanisms be developed which permit action geared to the situation and specific needs of the least-prosperous Member States in an effort to tackle their structural problems. The European Council took note of the Greek position as outlined by the Greek Prime Minister.

5. It therefore decided to give a renewed impetus to the development of Community policies on a broad front.

The following chapters set out the framework within which it agreed that this renewal of the Community should be carried forward.

I. DEVELOPMENT OF COMMUNITY POLICIES (OTHER THAN THE CAP)

Overall Community economic strategy

1. The European Council agreed that an overall economic strategy in the Community is essential to combat unemployment and inflation and to encourage convergence. Priority should be given to encouraging productive investment and raising competitiveness as a basis for creating durable jobs, bringing about sustainable economic growth and reducing unemployment. At the same time the Community should pursue the reduction of its dependence on external sources of energy, in particular oil.
2. In addition to measures taken at a world-wide level in pursuit of these common objectives, the European Council underlined the contribution that Community policies can make especially in all the areas set out below.

A. Employment policy

3. The European Council agreed that as a complement to macro-economic policy decisions effective action in the social field to alleviate unemployment should be taken at both the Community and the national level.
4. At the Community level full use should be made of all appropriate Community instruments and policies, as set out in succeeding sections of these conclusions.
5. It agreed that the Council (Social Affairs) should review as a matter of urgency the various existing means of consulting the social partners with a view to making them a more effective channel for a genuine dialogue. (See also paragraphs 18 and 19.)

.../...

- 4 -

4. Economic policy

6. The European Council agreed that the achievement of the Community's overall objectives would require stronger economic disciplines and concertation. The Community should ensure, through a careful comparison of national policies, that the main economic and sectoral objectives of the Member States are consistent with the maintenance and strengthening of the Community as well as with the object of consolidating the EMS. It therefore called for a more effective coordination of national economic policies and invited the Commission and the Council (ECOFIN) to make fuller use of the machinery set up for that purpose and to consider whether it needed strengthening.

C. Monetary policy

7. The European Council welcomed the success of the EMS in creating a zone of currency stability in Europe. It agreed that it should be further developed both as a key element in progress towards economic and monetary union and the creation of a European Monetary Fund, and to encourage a more stable international economic environment. It invited the Council (ECOFIN) to take stock during 1982 of the preparatory work done on these matters and in particular to take the necessary steps:

- to achieve greater concertation of national monetary policies;
- to encourage the use of the ECU for Community loans and on financial markets by both public and private borrowers;
- to seek improvements in monetary co-operation with the Community's principal partners, in particular insofar as exchange rates and interest rate policies were concerned.

D. Borrowing and Lending policy

8. The European Council welcomed the moves recently made to expand the scope of the Community's financial instruments, (EIB, ECSC, EURATOM and the NCI) in order to promote investment
- .../...

[including investments in infrastructure as part of a progressive industrial and economic strategy. While recalling the need to maintain the ability of the Community and its Member States to borrow on suitable terms in the international and domestic capital markets, it agreed that there should be expansion as appropriate of these instruments to further agreed Community policies.

9. The European Council approved the continuation of the new Community instrument for loans to increase investment in infrastructure, industrial renewal and development and self-sufficiency in energy in the Community. It agreed that the instrument's loan capacity should be increased by 3 billion ECU to be raised on the market at a rate corresponding to the needs. It invited the Council (ECG/FIN) to decide on the necessary conditions and timing.

B. External economic policy

10. The European Council agreed that, given the importance of the Community's external trade, it should seek to develop its external economic policy on the basis of common positions. In this way it would give effect to its special responsibility as the principal world trader and to its commitment to the open trading system. It underlined that, in view of the serious economic problems faced by all, genuine reciprocity was necessary. This required both a strengthened dialogue with the Community's main industrial partners and recognition of the needs of the developing countries.

F. Common Market and Industrial Strategy

11. The European Council recognized that the changes which had come about in recent years as regards both the structure of world markets and energy costs require a major industrial response. There was therefore a need for an industrial strategy at the Community level in order to develop industry, make it competitive and create productive jobs in Europe.

.../...

(1) Internal market and competition policy

The European Council recognized that the completion of the internal market, in accordance with the Treaties, would make an important contribution to solving the economic problems currently facing Member States, in particular by facilitating industrial co-operation and restructuring at the European level. A closely linked objective was the enforcement of proper conditions of competition, in particular transparency and effective control in the field of State aids, which would stimulate innovation and durable employment and enhance the international competitiveness of Community industry. Accordingly it called for a further intensive effort to secure decisive progress in 1982 concentrating on the following:

- (a) an effective competition policy including stricter discipline regarding aids, both single and cumulative, distorting competition;
- (b) progress towards establishing a common legal framework for Community industry, where this would bring tangible economic benefits for Community industry;
- (c) the effective implementation of the liberalization within the Community of public purchasing arrangements, in particular for high technology products, in order to take full advantage of a market on a continental scale;
- (d) the creation of a free market for services as provided for by the Treaties. An important objective is the early adoption of measures to give effect to the freedom to provide insurance services within the Community;
- (e) progress in equivalence of professional qualifications;

.../...

(f) the simplification of formalities and procedures to reduce frontier delays affecting the free movement of goods within the Community on the Benelux model;

(g) a renewed effort to harmonize existing technical provisions and certification procedures as well as to prevent the proliferation of new national measures, where these create real or potential barriers to trade. A decision should be taken before the end of 1981 on the treatment of third country products, in order to enable those Directives affected by this problem to be adopted.

12. The European Council welcomed the decisions which had been taken by the Community in the steel sector and noted the vital importance for the future of the Community's textile industry of a satisfactory outcome to the current negotiations on the NFA.

(ii) Innovation, research and development

13. The European Council, conscious that the Community had lagged behind American and Japanese competition, agreed that Member States and the competent authorities of the European Community should expand and concert their research and development effort in order to promote industrial restructuring and innovation. The Community's efforts should be concentrated in areas where the Community has a comparative advantage and should be focussed to support agreed policy objectives. It welcomed the priority given

.../...

by the Council (Research) to the principle of a common strategy consisting of increased concertation of national and Community policies on the basis of common objectives and requested the Commission to prepare more detailed proposals. These proposals should be examined by the Council (Research) in March 1982 and decisions should be taken not later than July 1982.

14. It welcomed the adoption by the Council of the regulations on micro-electronics, and invited the Commission to consider with Member States other appropriate actions including the improvement of technological training with a view to securing the wider benefits which would follow from the development of high technologies and other industries of the future.
15. It noted the Commission's communication on innovation emphasizing the key role which the successful application of innovation by industry, including small and medium enterprises, could have in ensuring the healthy development of the Community; and invited the Commission to bring forward specific practical proposals so that decisions could be taken before the end of October 1982.

(iii) Energy Policy

16. The European Council considered that the Community's energy strategy must be based on common objectives to be achieved by co-ordinated action on the part of the Member States, observing collective discipline, and by action on the part of the Community when this will lead to greater efficiency for the Community as a whole.
17. It agreed that priority should be given to the following points:

.../...

- (a) monitoring the progress of Member States towards agreed Community objectives including those for energy saving, on the basis of annual reports by the Commission and appropriate recommendations;
- (b) investment on an economic basis in the production, distribution and efficient use of energy should be brought up to a high level, where appropriate with the support of Community instruments. Community action should be fitted into the framework of efforts at the national level to attain agreed Community objectives. It noted that the Commission would rapidly complete its examination of energy investments, including those in the rational use of energy, and make specific proposals during the first quarter of 1982;
- (c) a common approach to pricing policy based on economic principles and transparency in the energy market;
- (d) an effective and united Community response to limited shortfall in oil supplies and the attendant dangers of disproportionate oil price increases. The Community should pursue its consultations with other industrialized countries, whose participation was necessary for the effectiveness of the action;
- (e) a balanced and co-ordinated approach in relations on energy matters with third countries. It reaffirmed its support for the establishment of an energy affiliate to the World Bank as one suitable instrument for this;
- (f) research and development in the energy sector should continue to receive priority and be focussed on essential projects where action at the Community level was necessary. Demonstration projects chosen in the light of the evaluation of existing programmes and designed to promote the industrial application of new techniques should also be continued.

G. Social Policy

18. The European Council emphasized the importance it attached to the concerted use of all appropriate Community instruments to encourage better living and working standards for the men and women making up the Community work force. It underlined that a coherent approach should be taken both at national and at Community level to promote access for school-leavers to education, vocational training, other forms of training or work-experience, instead of being unemployed. Particular attention should be given to developing the employment potential, especially in small and medium-sized enterprises and co-operatives, by easing the process of expansion, innovation and development of new technology. This implied also a renewed effort in the field of training.
19. The European Council underlined the need for consideration at the Community level of different aspects of the re-organization of working time, taking account of the competitive position of the Community. The Commission's forthcoming proposal for a Community initiative on part-time and temporary work and flexible retirement should be examined by the Council as a matter of urgency in closer consultation with the social partners.
20. It considered that the review of the Social Fund, which should be completed by 1 July 1982, provided an occasion to make it more effective and more relevant to present day conditions. It agreed that the financial resources of the Fund should continue to grow in real terms within the financial resources available, and that, while the Fund should continue to support a major effort in the field of vocational training, it should also in future concentrate more on the need to ensure better access to the labour market for the young. It should also encourage occupational mobility where problems were caused by industrial restructuring following Community decisions.

.../...

21. The Fund's resources should continue to be particularly directed towards areas of greatest need, including those suffering from the decline in traditional manufacturing industries.

H. Regional policy

22. The European Council agreed that it was essential to maintain and develop the Community's efforts in the regional sphere so that all Community policies and instruments could play their full role in promoting convergence. It stressed the value of a better co-ordination of national regional aids and Community efforts.
23. With regard to the review of the European Regional Development Fund, on which decisions should be taken not later than 1 April 1962, the European Council agreed that the financial resources of the Fund should continue to grow in real terms within the financial resources available and that the quota section of the Fund should concentrate its activities more than in the past, but not exclusively, on the areas of greatest need in the less-prosperous Member States. The non-quota section, whose operations, while not subject to geographical limitations, might give preference to the less-prosperous Member States, could be increased and should be particularly directed to deal with structural imbalances caused by problems of industrial decline or by the effects of certain Community policies.

I. Transport

24. The European Council considered that the development of a unified internal market implied a need for positive action in the transport field to improve communications, particularly in the more remote areas of the Community. This action should aim to increase the efficiency and freedom of circulation of goods and passengers between Member States,

.../...

while taking account of the diversity of Member States' transport requirements, of the desirability of evolving a coherent European transport policy and of the Community's relations with third countries. It invited the Council (Transport) to intensify their work in this field and to speed up the rate of progress on the Commission's proposals, notably those first put forward in 1975 on aid for transport infrastructure. It also agreed that the Commission proposals on air services and air fares should be examined in a positive spirit.

Implementation

25. The European Council invited the Council to examine as a matter of urgency the existing Commission proposals on the guidelines set out in this chapter, with particular reference to those having a bearing on the social sphere, and to make sure as far as possible that the necessary decisions are taken before the next European Council to which report will be made.

It requested the Commission to submit without delay proposals on the other guidelines in this chapter so that the Council, using this as a base, could prepare a programme of work to be endorsed by the next European Council.

.../...

II. THE COMMON AGRICULTURAL POLICY

1. The European Council affirmed the fundamental role of the common agricultural policy in the Community, and agreed on the need for the policy to continue to develop in harmony with other policies, at the same time fully respecting the objectives of the Treaty, notably Article 39, and the principles of unity of the market, Community preference and financial solidarity.
2. Taking full account both of its considerable achievements and of the problems which have manifested themselves and persist, it concluded that the common agricultural policy should in future be developed in conformity with the guidelines set out in the following paragraphs.
3. The European Council considers a prudent price policy to be necessary, at the same time taking account of the objectives of Article 39 of the EEC Treaty and:
 - the need to ensure a fair standard of living for the agricultural Community;
 - the need to achieve in some sectors a greater market equilibrium;
 - the relationship between Community support prices and the level of comparable support prices for similar products in the main competitor countries.
4. Monetary compensatory amounts should be phased out in conformity with the conclusions of the Council on 5/6 March 1979 and of 6/7 May 1980.
5. The Commission was invited to study the particular problem for farm incomes arising from differential rates of inflation and to report by 1 March 1982.

.../...

E

6. [The following paragraphs lay down for certain products guidelines for arrangements to adjust the level of guarantee when production in an individual sector exceeds an agreed guarantee threshold. The modalities for other sectors will vary depending on the circumstances, taking into account the Commission's memorandum of 23 October 1981.] (1)

Modalities for products

7. The following modalities should be adopted:

(a) Cereals

[The Community's prices for cereals should be fixed in the coming years so as to achieve a better hierarchy of agricultural prices and in such a way that Community cereal prices come progressively closer to those of main competitor countries. This policy will reduce and in the long term remove the competitive advantage enjoyed by imports of products which substitute for cereals; Discussion with the principal third country suppliers should be undertaken by the Community, where necessary to stabilize the volume of imports of such substitutes in the short and (2) medium term.

The modulation of guarantees for cereals should take the form of a reduction in the intervention price if production exceeds a level fixed in advance.]

(1) The European Council agreed to leave this paragraph open until agreement had been reached on modalities for products.

(2) There was a general consensus in the European Council that this paragraph could be agreed once agreement was reached on the formulation, to be introduced in the following paragraph, on the relationship between modulation of guarantees for cereals and progress concerning stabilisation of imports of cereal substitutes.

(b) Milk

[ALTERNATIVE A

The modulation of the guarantee for this product should be decided by the Council not later than 31 March.

ALTERNATIVE B (Proposal by the Commission)

Modulation of the guarantee should be achieved by continuing the existing co-responsibility levy at its present level, taking into account the situation of small producers, and by other measures so that producers participate in the cost of disposal of surplus production.] (1)

Structural Policy

8. The European Council recognised the need for an active policy for improving agricultural structures, adapted to the particular needs of individual regions. The problems of less-favoured agricultural regions, including some Mediterranean areas, which are heavily dependent on rural occupations for employment, merit special attention.
9. The European Council noted the Commission's intention to present, by the end of 1982, proposals for integrated programmes, to take account of the special problems affecting the less-advantaged regions in the Mediterranean countries.

Mediterranean agriculture

10. [The European Council agreed that there is an urgent need to review the existing provisions for olive oil, wine and fruit and vegetables. The Council should carry forward urgently, with a view to taking decisions not later than 1st April 1982, its examination of the Commission's suggestions

.../...

(1) The European Council based its discussion on these two alternatives. The discussion centered on the question of treatment of small producers and the need to avoid solutions, which might create distortion of competition between Community producers.

for amending the acquis in the context of enlargement, having regard to the related paragraphs in the Commission's memorandum of 23 October 1981 and these guidelines. They should also have regard to the following considerations:

- (a) for wine, the Council should rapidly decide on the changes in the wine regime needed to improve the market balance while safeguarding the incomes of producers in this sector;
- (b) for fruit and vegetables, the Council should decide the necessary changes in the market regime, taking account of the need to afford a fair level of support for producers;
- (c) for olive oil, the Council should decide the necessary changes in the market regime, needed to improve the market balance while safeguarding the incomes of producers in this sector, taking account of the budgetary and other implications arising from future enlargement of the Communityⁿ⁾.

Export and Import Policy

11. In its policy concerning trade in agricultural and processed agricultural products, including Mediterranean products, the Community should have regard to Community preference, to the Community's international obligations, and to the good management of the markets and the budget. In particular:

- (a) The Community should pursue an active export policy.
- (b) The Council should consider framework agreements for the multi-annual supply of products to importing countries, specifying in each case the products and provisions to be included.

.../...

n) Text as amended but not agreed during the discussion of the European Council. Discussion in the European Council centered on the question whether the Council should commit itself to a review or to an improvement in the existing provision (cfr. point 10, 2nd line).

- (c) The Commission should monitor the level of imports of products which could affect the Community markets.
- (d) The Community should continue to co-operate, for appropriate products with other major trading partners with a view to achieving greater stability in world markets.

National Aids

12. [The European Council noted that national aids represent a significant proportion of the overall expenditure on agriculture within the Community. Aids to agriculture complement in some cases the Community's expenditure on agriculture; but they can also singly or cumulatively distort competition and encourage surplus production. The Member States must therefore ensure greater respect for the Community rules and procedures concerning national aids, and the Commission should ensure that these provisions are more strictly observed by applying the necessary disciplines and sanctions. The Council should adopt, on a proposal from the Commission, a regulation specifying which aids are to be notified, which are prohibited, and which are authorised.]^{u)}
13. The Commission was invited to submit to the Council a study of the economic impact of national aids, taking account of their consequences for agricultural production, incomes and financial solidarity.

Budgetary aspects

14. The European Council welcomed the substantial reduction in the rate of growth in agricultural guarantee expenditure in the last 2 years. This has been achieved in part as a result of sound management of expenditure and careful regard by the Council and Commission to the costs of price and other decisions which have contained the growth of agricultural expenditure.

.../...

u) No substantive discussion in the European Council. Reservations taken in the working group maintained.

15. It invited the Council and Commission to build on this achievement by strengthening effective management and financial control to ensure the most efficient use of the Community's financial resources. The effectiveness of all measures under the CAP should be kept under review.

[ALTERNATIVE A

16. It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions on implementation of the above guidelines to ensure that for the time being agricultural expenditure will grow less rapidly than the Community's own resources. It will be the responsibility of the Commission to manage agricultural expenditure within that framework. ^{e)}

ALTERNATIVE B (Proposal by the Danish delegation)

16. It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions on implementation of the above guidelines which would imply that for the time being agricultural expenditure will grow less rapidly than the Community's own resources. It will be the responsibility of the Commission to manage agricultural expenditure efficiently.

ALTERNATIVE C (Proposal by the French delegation)

16. The European Council considered that implementation of these guidelines by the Council should ensure that agricultural expenditure grows less rapidly than the Community's own resources, as has been the case over the last two years.]

.../...

e) The Commission suggests the following declaration:

"In the opinion of the Commission the implementation of the orientation adopted in paragraph 16 should be evaluated as an average over several years in the case of erratic evolution in the conditions under which the common agricultural policy is executed".

Implementation

17. | The Council (General affairs) in liaison with the Ministers of Agriculture should establish the procedure which will make it possible for decisions to implement the above guidelines to be taken.

The European Council accordingly invited the Commission to make the appropriate proposals, and the Council to take the necessary decisions, to ensure that the adaptations outlined in the preceding paragraphs enter into force from the 1982/1983 season.

CHAPTER III. BUDGETARY PROBLEMS
A. TEXT PROPOSED BY THE PRESIDENCY

1. The object of the Community budget is to finance agreed Community policies. At the same time the creation or recurrence of an unacceptable situation for any Member State must be avoided and the overall convergence of the economies of Member States must be fostered, without imposing an undue burden on any Member State.
2. In the long term the reconciliation of these objectives will be achieved through the development of Community policies and of the balance between them. The conclusions reached in Chapters I and II above are a first step in that direction.
3. But the process of reconciling the objectives by these means will take a period whose length cannot be predicted with any precision and, in the meantime, a budgetary corrective arrangement will be needed, if unacceptable budgetary situations are to be avoided.
4. The corrective arrangement will need to deal not only with the problem already recognised by the Community when the financial mechanism was agreed, but also with the imbalance in the distribution of expenditure, notably FEOSA guarantee expenditure. The arrangement will be based on objective criteria, so that there will be no need for an annual negotiation. It will take account of relative prosperity as between Member States and progress in achieving balance in Community policies. It will also take account of the volume of net contributions of Member States with undue burdens which must be limited.

5. The financing of the corrective arrangement will be achieved within the agreed VAT ceiling, if necessary by a method which avoids any net budgetary impact; and without putting at risk the financing of other agreed Community policies. The financial effects of the corrective arrangement will have regard to whether the payments come from Member States below or above the Community average GDP per head and whether they already have a problem arising from the Community budget.

6. The corrective arrangement will apply with effect from the Community's 1982 budget year. The Council, acting on a proposal of the Commission, will take the necessary detailed decisions by 31 December 1981.

7. The detailed arrangements so agreed will be reviewed after seven years to consider the progress made towards the Community's long term budgetary objectives and whether any changes are needed.

B. TEXT PROPOSED BY THE COMMISSION

1)

The European Council noted that all the work carried out since the submission of the Commission report complied with the Mandate of 30 May 1980 which aimed to resolve budgetary problems by developing or adapting Community policies without calling into question the principles on which they are based, particularly in the case of the GAF. The effects of the measures being prepared will not, however, be felt to any significant degree for some time.

For this reason, the European Council adopted the principle of financial compensation measures for the United Kingdom to be implemented as from the 1982 financial year. Such measures would be decided upon for a specific period. They should not affect the Community's financing system.

The amount of the compensation would be arrived at annually on the basis of the actual figures for each year using an objective indicator to measure the true extent of the problem and in the light of the agreed rate of compensation. In this way recurrent annual negotiation would be avoided.

The costs arising from the compensation paid to the United Kingdom would be shared according to an ad hoc scale to be decided upon by the Council in accordance with the policy of solidarity which the Community intends to continue to apply towards its less prosperous members and taking into account the specific nature of the German budgetary problem.

.../...

1) The discussion in the European Council which was mainly based on this text concentrated on three basic points where substantial disagreement was noted: duration, degressivity or not and whether financing would be over the budget, or according to ad hoc contributions.

C. TEXT PROPOSED BY THE FRENCH DELEGATION

1. The European Council reviewed the Community's budgetary situation on the basis of the report from the Commission.
 2. The European Council recognized that a better balance between Community policies was necessary in order to create a sound basis for the further development of the Community.
 3. The European Council noted that its conclusions concerning the development of Community policies and the adaptation of the common agricultural policy constituted significant first steps in this direction.
 4. The European Council agreed that a temporary, exceptional common action, allowing for an alleviation of the budgetary burden of the UK, should be established, under which funds would be made available to the UK from the budget of the Community for a short period.
 5. The European Council invited the Council (General Affairs) to fix, at its next session, the duration and the degressive, arbitrary amounts to be made available.
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PRESS CONFERENCE BY PRESIDENT OF EUROPEAN COUNCIL

LONDON, 26-27 NOVEMBER 1981

SPEAKING NOTE

ECONOMIC AND SOCIAL SITUATION

Council endorsed conclusions of Vice President Ortoli
in report on economic and social situation.

The objectives of fighting inflation and unemployment require
public deficits to be kept under control and monetary policy within
tight limits.

Also necessary to cut production and distribution costs notably
unit labour costs.

Special attention must be given to solving youth unemployment
and providing more training for school leavers.



Ref. A06190

PRIME MINISTER

Cabinet: Community Affairs

You will wish to give the Cabinet your impressions of the European Council on 26 and 27 November, on which you reported to the House on 30 November. You might cover:

- (i) Mr Papandreou's statement: not yet clear how the new Greek Government will seek to modify its relationship with the Community.
- (ii) The procedural decision to invite Foreign Ministers to examine the German/Italian ideas for a European Act dealing with the link between political co-operation and the Community, the European Parliament and security and cultural affairs.
- (iii) The conclusions on enlargement, which were not blocked by the French despite their earlier threats.
- (iv) The discussion on the economic and social situation, in which the emphasis was placed on the reduction in inflation and unemployment, particularly of the young, through the control of public deficits.

2. On the mandate, most Heads of Government showed a readiness to make progress, although this was not reflected in the overnight discussion among officials. Agreement was reached on some points but only conditionally on the package as a whole being settled. These points included:

- (i) An increase of 3 billion ECUs in the loan ceiling of the new Community instrument.
- (ii) Agreement that the Regional and Social Funds should grow in real terms within the financial resources available and in the case of the former concentrated more on the less prosperous member states.



3. No agreement was reached on milk - where French requests for special treatment of small milk producers was resisted by ourselves and the Dutch - guidelines on agricultural spending, Mediterranean agriculture; and on the budget problem itself. The Council concluded that there should be a special meeting of Foreign Ministers as soon as possible, in the hope of reaching a settlement before the March European Council. You might wish to add that you are in contact with the Ministers concerned about how best to carry matters forward. It is difficult for the United Kingdom in its Presidency capacity not to convene such a meeting before our term of office expires at the end of the year; but the prospects for an acceptable outcome in that timescale are negligible.

4. The Environment Council meets on 3 December. Next week the Foreign Affairs Council will take place on 7/8 December, the Social Affairs Council on 8 December and the informal meeting of Industry Ministers on 10 December.

REA

ROBERT ARMSTRONG

2 December 1981



PART 12 ends:-

Franklin to PM 1/12/87

PART 13 begins:-

R-TA to PM 1/12/87

