PREM 19/738

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The Community Budget

Development of the European Community

PART 14

EUROPEAN POLICY

Part 1 : May 1979

Part 14: Feb. 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/738

Dd 533270 5M 2/78 8362633 JET

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Cmnd. 8513: Statement on the 1982 Community Budget
HMSO, 4 March 1982

Signed C Wayland Date 28 August 2012

PREM Records Team

Euro pol

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GRPS 410
CONFIDENTIAL
FM BRUSSELS 181300Z MAR 82
TO PRIORITY FCO
TELNO 106 OF 18 MARCH
INFO SAVING EC POSTS
[FRAME ECONOMIC]
YOUR TELNO 63 TO ATHENS

MANDATE

1. I USED THE OPPORTUNITY, DURING MY FAREWELL CALL ON THE PRIME MINISTER YESTERDAY EVENING, TO TAKE MR MARTENS CAREFULLY THROUGH OUR POSITION ON THE BUDGET. I SUSPECTED, CORRECTLY, THAT TINDEMANS WOULD NOT YET HAVE BRIEFED HIM ON HIS VISIT TO LONDON.

2. I EXPRESSED OUR ANXIETY THAT NO SOLUTION TO OUR BUDGET PROBLEM WAS YET IN SIGHT.WE HAD DONE OUR BEST TO GET THE GUIDELINES OF THE MANDATE AGREED DURING OUR PRESIDENCY,BUT AT THE LAST MOMENT THIS HAD FAILED AND NOW THE MANDATE DISCUSSION WAS COINCIDING WITH THE FARM PRICES DEBATE.WE HOPED FOR PROGRESS AT THE FOREIGN AFFAIRS COUNCIL.BUT UNLESS A SOLUTION WERE IN SIGHT,THERE WOULD BE NO ALTERNATIVE TO RAISING THE MATTER AT THE EUROPEAN COUNCIL.

3. MARTENS SAID HE UNDERSTOOD THERE WERE SOME MEMBERS WHO WERE OPPOSED TO DISCUSSION AT THE COUNCIL.I REPLIED THAT PROGRESS ON ALL THE MANDATE QUESTIONS COULD NOT REMAIN BLOCKED AND THE SUBJECT COULD NOT BE IGNORED.FURTHERMORE,THE QUESTION OF FARM PRICES WAS BEGINNING TO PRESS:WE COULD NOT AGREE TO BIG INCREASES IN PRICES WHICH WOULD INCREASE THE COMMUNITY BUDGET AND OUR CONTRIBUTION WITHOUT SEEING A SOLUTION TO OUR BUDGETARY DIFFICULTIES.

4. MARTENS ASKED WHAT EXACTLY WE WANTED.I EXPLAINED WE WANTED A MECHANISM WHICH AUTOMATICALLY BROUGHT OUR NET CONTRIBUTION WITHIN REASONABLE PROPORTIONS.WE WERE PREPARED TO BE A MODEST CONTRIBUTOR. WE COULD NOT,HOWEVER,ACCEPT THE CONCEPT OF DEGRESSIVITY IF THIS MEANT THAT THE RELIEF OF OUR PROBLEMS WAS AUTOMATICALLY REDUCED WHATEVER HAPPENED TO THE SIZE OF OUR NET CONTRIBUTION.HOWEVER,WE WERE NOT ASKING FOR A MECHANISM WHICH INSULATED US TOTALLY FROM FINANCIAL MOVEMENTS IN THE COMMUNITY BUDGET.I EXPLAINED THAT WE ACCEPTED PROGRESSIVITY IN THE SENSE THAT OUR ADJUSTED NET CONTRIBUTION WOULD MOVE UPWARDS,OTHER THINGS BEING EQUAL,SHOULD THE TOTAL BUDGET INCREASE.SIMILARLY,IF COMMUNITY POLICIES RESULTED IN OUR GETTING GREATER RECEIPTS FROM THE COMMUNITY,THIS WOULD AUTOMATICALLY LEAD TO A REDUCTION IN OUR FINANCIAL ADJUSTMENT TO OUR CONTRIBUTION.IN ANSWER TO HIS QUESTION ABOUT THE SIZE OF OUR SHARE OF THE BUDGET IN THE COMING YEAR,I SAID THIS LOOKED LIKE AMOUNTING TO SOME 2,000MECU.HE WAS IMPRESSED.

/5.

CONFIDENTIAL

5. I SAID I BELIEVED OTHERS OF OUR PARTNERS WERE ANXIOUS TO REACH A SETTLEMENT, THOUGH WE WERE NOT SURE OF THE EXACT POSITION OF THE FRENCH. I HOPED BENELUX WOULD PLAY THEIR TRADITIONAL ROLE OF WORKING FOR A SOLUTION. HE SAID HE WOULD HAVE THE DOSSIERS PREPARED DURING NEXT WEEK, AND WORK ON THEM ON SUNDAY READY FOR THE BENELUX MEETING ON SUNDAY EVENING. (28 MARCH) I SAID I HOPED AN EXCEPTIONAL EFFORT COULD BE MADE AT THE FOREIGN AFFAIRS COUNCIL ON THE 23RD.

FCO PLEASE PASS SAVING ADDRESSEES EXCEPT UKREP BRUSSELS WE WILL PASS

WAKEFIELD [COPIES SENT TO NO 10 DOWNING ST]

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ADVANCED

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File 2

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

THE MANDATE

The Prime Minister saw your minute of 16 March about your appointment with M. Attali but I understand that this has now been overtaken and that you will meet M. Attali on Wednesday rather than Monday of next week.

A. J. COLES

18 March 1982

PERSONAL AND CONFIDENTIAL

CONFIDENTIAL AND PERSONAL

MR. HANCOCK
CABINET OFFICE

EC BUDGET

Thank you for your minute of 18 March. I have shown the Prime Minister once more the conclusions of the paper on "EC Budget Restructuring" and she has confirmed that she agrees with them.

A. J. COLES

18 March 1982

CONFIDENTIAL AND PERSONAL

Qz.02507

MR COLES

I attach a draft letter for you to send to record the outcome of yesterday's meeting. You told me that you were not happy about sending a letter that said the Prime Minister had approved the conclusions of the paper "EC Budget Restructuring". However, the other Ministers present explicitly confirmed that they were content and for operational purposes I think we need to know whether these conclusions are approved. I should therefore be grateful if you could show the Prime Minister the paper again and ask her if she is content that you should write as drafted below.

D.H.

D J S HANCOCK

18 March 1982

CONFIDENTIAL AND PERSONAL

Ref. A07826

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary might report on his talks on 15th March with the French Foreign Minister on the Mandate, and on the discussion you and he held with Messieurs Tindemans and Thorn on the same subject the following day.

2. You might wish the Chancellor of the Exchequer to report on the outcome of the 15th March ECOFIN Council. The Council rejected most of the detailed proposals for improvements in the European Monetary System put forward by the Commission, but adopted general conclusions which will be reported to the March European Council. On Japan the Council agreed that a common position on Japan's macro-economic and exchange rate policies was needed to back up pressure on the trade front, and commissioned further studies from the Monetary Committee. Despite the failure of conciliation with the Parliament, the Council adopted the basic Regulation on the New Community Instrument in order to enable the second tranche of this facility to be put into effect.

3. The Minister of Agriculture might report on the 15/17 March Agriculture Council, at which discussions on the Common Agricultural Policy (CAP) price-fixing did not get beyond the staking out of national positions on individual products. Mr Buchanan-Smith challenged the Commission on the consistency of their price proposals with the financial guideline for the CAP advocated at Lancaster House by Chancellor Schmidt; but he got no support at all from Herr Ertl and only a vague and unconvincing intervention by the German State Secretary. The French Minister said that, if no satisfactory agreement were reached at the next Council on 31 March - 2 April, France would introduce national aids, commenting that these would help to destroy the CAP but "others would have forced France to pay them".

4. The Secretary of State for Energy might report on the 16th March Energy Council. The Council traversed a long agenda covering investment in energy conservation, Community coal policy, the role of nuclear power, energy pricing and the security of gas supplies without reaching final conclusions. The Council confirmed its previous decisions on measures to cope with limited oil supply shortfalls, and agreed on the need to avoid complacency during the current period of falling oil prices.

5. The Anglo-German summit meeting will take place on 19th March. The Foreign Affairs Council will meet on 22/23 March; the second day will be devoted to the 30 May Mandate.

RWA

ROBERT ARMSTRONG

17th March 1982

CONFIDENTIAL

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CONFIDENTIAL
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FM BONN 171755Z MAR 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 237 OF 17 MARCH
INFO IMMEDIATE UKREP BRUSSELS PARIS ROUTINE DUBLIN ROME
LUXEMBOURG COPENHAGEN THE HAGUE EMBASSY BRUSSELS ATHENS

FOREIGN AFFAIRS COUNCIL 22/23 MARCH: THE MANDATE YOUR TELNO 63
TO ATHENS

1. WE WENT OVER THE POINTS IN YOUR TUR IN SOME DETAIL WITH BROCKDORFF (AUSWAERTIGES AMT).

2. BROCKDORFF WELCOMED THE LINE IN PARAGRAPHS 2 AND 3. HE HAD HEARD THAT THE ITALIANS TOO SUPPORTED THE GUIDELINES APPROACH. BUT RECENT CONTACTS WITH THE FRENCH HAD NOT YIELDED MUCH. HE WONDERED IF THE QUAI WERE STILL IN CHARGE. WITH REGARD TO DISCUSSION AT THE COUNCIL, HE SAID THAT THE GERMANS WOULD BE VERY READY TO DICUSS SUBSTANCE ONCE THE GUIDELINES HAD BEEN AGREED. AS FOR THE EUROPEAN COUNCIL, THEY WOULD NOT WANT ANY DISCUSSION OF SUBSTANCE ON 23 MARCH TO BE FOLLOWED UP THEN. THEIR IDEA WAS THAT HEADS OF GOVERNMENT SHOULD BE FREE TO SET OUT THEIR POSITIONS ON SUBSTANCE AND TO LEAVE IT TO THE FOREIGN AFFAIRS COUNCIL TO FOLLOW UP THEREAFTER LEADING TO FINAL AGREEMENT AT THE EUROPEAN COUNCIL IN JUNE, IF NOT BEFORE. HE CLAIMED THAT MITTERRAND WOULD NOT PARTICIPATE IN A NEGOTIATION ON FIGURES.

3. ON PROGRESSIVITY/DEGRESSIVITY HE SAID THAT THERE WOULD NEED TO BE MORE GIVE IN OUR POSITION. SOME ADDITIONAL OBJECTIVE CRITERIA FOR PROGRESSIVITY WERE POLITICALLY INDISPENSABLE.

4. ON THE FINANCIAL MECHANISM, BROCKDORFF SAID THAT THE GERMAN VIEW WAS THAT THE MATTER SHOULD BE LEFT WHERE IT WAS , IE OPEN, WITH THE COMMISSION TO REPORT IN DUE COURSE. THAT, HE THOUGHT, WAS THE BEST THAT COULD BE DONE AT THE MOMENT. THIS OF COURSE ASSUMED THAT THE FRENCH WITHDREW THEIR RESERVE. SPECULATING ABOUT WHAT WOULD HAPPEN IF THEY DID NOT, HE SAID HE SUPPOSED THE WHOLE THING WOULD BE OFF.

5. BROCKDORFF (PSE PROTECT) SAID THAT AT THIS MORNING'S CABINET THERE HAD BEEN AN EXCHANGE OF VIEWS ON THE MANDATE. SOME HAD ARGUED THAT THE BRITISH AND FRENCH SHOULD BE ALLOWED TO SORT MATTERS OUT BUT A QUOTE NOT UNIMPORTANT UNQUOTE VOICE HAD ARGUED THAT THAT WAS NOT A VERY COMMUNAUTAIRE APPROACH AND THAT THE FEDERAL REPUBLIC OUGHT TO HAVE A POSITION OF ITS OWN. THE IMPLICATION WAS THAT THIS SECOND VIEW PREVAILED.

/6

CONFIDENTIAL

6. WITH REGARD TO QUOTE TROP PAYE UNQUOTE, BROCKDORFF SAID THAT GENSCHER'S VIEW WAS THAT UNTIL THE GUIDELINES WERE SECURED THIS ISSUE SHOULD NOT BE DISCUSSED. IF HOWEVER THERE WERE NO GUIDELINES IT MIGHT BE DIFFICULT TO AVOID DISCUSSING IT.

7. WE ALSO SPOKE TO HECK AND WENT INTO SOME DETAIL ON PARA 5 OF TUR. HE DID NOT SEEM DISPOSED TO DISPUTE OUR FIGURES NOR THE EXPLANATION BEHIND THE ESTIMATES IN TABLE 2 ON PAGE 5 OF THE WHITE PAPER ON THE 1982 COMMUNITY BUDGET (TELECON EDWARDS/ BEAMISH).

FCO PASS ADVANCE COPIES TO:
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WENTWORTH CABINET OFFICE
BRIDGES FCO
HANNAY FCO
SPRECKLEY FCO
LITTLER TREASURY
EDWARDS TREASURY
ANDREWS MAFF

ADVANCED AS REQUESTED

TAYLOR

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FRAME ECONOMIC
ECD (1)
PS
PS/PUS

Prime Minister

(2)

A.J.C. 17/3

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

A.J.C. 22/3

16 March 1982

John Coles, Esq.,
No.10 Downing Street

Dear John,

EC BUDGET MANDATE : FRENCH POSITION FOR 1982

Since the completion of the paper by officials for the Prime Minister's meeting tomorrow, Treasury officials have been looking further at France's prospective net budget contribution for 1982. Given the likely importance of the prospective French position, the Chancellor has asked me to send you this note before the meeting.

The Commission's earlier projections, given to us in confidence and reflected in Annex C to the paper by officials, showed a massive deterioration of over ½ billion ecus in French net receipts before UK refunds, from 680 million ecus for 1981 to 160 million ecus for 1982. If this projection were correct, the French would be left, on the figures we used earlier, with a significant net contribution after UK refunds even in the 66 per cent refunds case and a net contribution much higher than our own in the 95 per cent refunds case.

Officials have pointed out informally to friends in the Commission that the earlier Commission figures assumed that everything would go wrong for France simultaneously - with their share of "own resources" contributions rising sharply while their shares of receipts from both agricultural and other expenditure fell. We understand that the Commission have now revised their figures. They are now talking of French net receipts for 1982, before UK refunds, of 350 million ecus (± 340 million ecus). This may still be pessimistic. But it does ease the French position after UK refunds by approaching 200 million ecus for 1982.

The Commission are also now talking in terms of a lower UK net contribution before refunds for 1982. This doubtless includes an element of wishful thinking. But it may be reasonable to assume a UK net contribution of around 2 billion ecus as the centre of the range, as against the 2150 million ecus assumed in Annex C.

/We have

We have unfortunately not been able to obtain the Commission's latest projections for other countries. But our earlier projections can be roughly adjusted in the light of these revisions to the French and UK figures. The resulting pattern for 1982 (on the assumption that Germany pays 25 per cent of our refunds, not 25 per cent of what they would have paid under own resources) is shown below.

Net contributions (-) after UK refunds

million ecus

	1981	1982 UK refunds percentages			
		High 95%	Intermediate 90%	85%	Low 66%
UK	-180	-100	-200	-300	-680
France	+240	-450	-400	-360	-200
Germany	-2120	-2340	-2310	-2280	-2190

The margin of error attaching to all such estimates is obviously very large. If however we allow (a) for a continuing element of pessimism in the forecasts for France, and (b) for the amounts we lose each year from the fact that our refunds are paid in arrears, the implication seems to be that an agreement which refunded us 85 per cent (or even 90 per cent) of our uncorrected net budget contribution might leave France and ourselves as net contributors on a fairly similar scale after refunds. If we allow also for costs and benefits outside the budget on intra-Community trade in agricultural products, France would of course continue to benefit far more than the UK from the Community's policies.

I am copying this letter to Francis Richards (FCO), Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours ever,

J.O. Kerr

J.O. KERR

Fishing Policy

Top copy of this minute & brief on Fish filed on Fishing Ind: Fishing Policy Pt 5.

CONFIDENTIAL

Qz.02505

PRIME MINISTER

AD HOC MEETING 2.45 pm WEDNESDAY 17 MARCH 1982

There are two separate subjects to discuss at your meeting tomorrow with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture and the Secretary of State for Scotland:-

(i) Fish.

(ii) The general handling of the 30 May Mandate negotiations: "EC budget restructuring".

2. I suggest that you take fish first because there will not be a lot of time and there is a difference of view on that issue to be resolved between Ministers.

--- 3. Attached to this minute are separate Chairman's briefs on the two subjects. The one on fish describes the background to the problem more fully than in the note attached to the Minister of Agriculture's minute to you of 11 March. The brief on EC budget restructuring deals only briefly with the background as you are familiar with it.

D.H.

D J S HANCOCK

16 March 1982

CONFIDENTIAL

PRIME MINISTER'S AD HOC MEETING: 17 MARCH

EC BUDGET RESTRUCTURING

Chairman's Brief

PURPOSE OF DISCUSSION

1. To decide on the approach to be adopted in the coming week on the negotiations on the 30 May Mandate and, in particular, the handling of the Anglo-German Summit on 19 March and the European Council on 29/30 March.

BACKGROUND

2. The meeting will have before it the Note by Officials submitted under cover of Sir Robert Armstrong's minute of 12 March. In view of the papers which you have recently seen on this subject and your recent discussion with Mr Littler and Mr Hancock you will be familiar with the material in the note and its annexes. Since it was submitted, you and the Foreign and Commonwealth Secretary have seen Monsieur Thorn and Monsieur Tindemans and the Foreign and Commonwealth Secretary has had talks with Monsieur Cheysson. These talks did not advance matters a great deal but the latter did provide some evidence that the French government really does want a settlement and is prepared to pay for it.

HANDLING

3. You might invite the Foreign and Commonwealth Secretary to report on the meetings with Monsieur Cheysson and to make any general remarks about the Note by Officials. You might also invite the Chancellor of the Exchequer to make any general points. You could then work through the conclusions on pages 6 and 7 of the Note, bringing in the Minister of Agriculture where necessary. The lettering below follows that in the Note.

/a.

a. Negotiations on our net budget contribution are currently being conducted in terms of the gap representing our shortfall in receipts from the budget and the gap representing the excess of contributions to the budget in each case compared with our GDP share. The paper suggests that our aim should be agreement to compensation of "a very high percentage" of these gaps. It is not suggested that your meeting tomorrow should endorse an actual figure but something of the order of 90% is what is intended by these words.

b. We are seeking an agreement with 5 years duration with a review in the last year: it may be that there will be some trade-off between duration and the extent of compensation. If so, would 4 years, with a review, be acceptable if it helped secure better figures?

If the budget compensation is expressed in terms of a percentage of two gaps (as at (a) above), and if the gaps grew, whether as a result of growth in the budget or as a result of a deterioration in the structure of the budget, the UK's adjusted net contribution would rise proportionately. This would provide a modest element in the solution which other member states could describe as degressivity. Is it agreed that the UK should go along with such a presentation if it helped secure agreement?

c. Is it agreed that the UK should encourage the search for a method of financing refunds which would ensure that they were not constrained by the 1% VAT ceiling provided that the method used (eg Article 200) did not undermine the discipline of the 1% ceiling on the rate of growth of all other Community expenditure programmes?

/d.

d. Is it agreed that the UK should be prepared to accept a commitment to review the own resources system in the context of enlargement, if this is necessary to secure a settlement and provided that there is no commitment to raise the 1% VAT ceiling?

e. Are the objectives on the Mandate for the Anglo-German Summit agreed as set out?

f. Are the objectives on the Mandate for the European Council agreed as set out?

g. The meeting may care to note that work is in hand on measures with which we could respond if other member states tried to circumvent the CAP prices lever, eg by repudiating the Luxembourg agreements or introducing national aids. A paper will be submitted in due course.

CONCLUSIONS

4. Subject to discussion you will want to sum up that the recommendations in the Note are agreed covering the following points:-

a. Objective for adjusted net contribution.

b. Duration and degressivity.

c. Financing and 1% VAT ceiling.

d. Possible review of own resources system.

e. Anglo-German Summit.

f. European Council.

g. Preparation of contingency plans for use if other member states take action to circumvent the CAP price lever.

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

16 March 1982

John Coles, Esq.,
No.10 Downing Street

Dear John,

EC BUDGET MANDATE : FRENCH POSITION FOR 1982

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/We have

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I am copying this letter to Francis Richards (FCO), Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours ever,

John Kerr.

J.O. KERR

Prime Minister

Ref: A07818

A.J.C. 17/3

PERSONAL AND CONFIDENTIAL

MR. COLES

MS

The Mandate

Monsieur Attali rang up this afternoon to say that, partly because he had had to accompany his President to Washington, he could not be ready for the proposed private and secret talks that he and I are due to have on The Mandate tomorrow. He assured me that he could be ready in time next week.

2. We have accordingly arranged to meet on Monday, 22nd March at 9.30 am. Mr. Hancock will of course be with me and Monsieur Attali will be accompanied by his colleague in the Elysee, Monsieur Morel. Thus Mr. Hancock will know where we stand on these talks before he goes over with the Foreign and Commonwealth Secretary to Brussels for the meeting of the Council of Ministers later that day.

3. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

RTA

Robert Armstrong

16th March 1982

PERSONAL AND CONFIDENTIAL

Ref: A07779

CONFIDENTIAL

Prime Minister
You may like to look at this over the weekend, in preparation for Wednesday's meeting.
A.J.C. 12/3

MR. COLES

30 May Mandate and other Community Negotiations

A meeting is being arranged on 17th March for the Prime Minister to consider with the Ministers most directly concerned the approach to the 30 May Mandate and the other current negotiations on the Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP), in particular in preparation for the Anglo-German Summit and the European Council later this month.

2. The attached note has been prepared in the Cabinet Office in consultation with officials in the relevant Departments as a basis for discussion of the 30 May Mandate and the CAP. A fuller technical note by officials on the "United Kingdom budget problem and 1 per cent ceiling" was submitted with my minute of 26th February, and I attach a copy of that note also for ease of reference.

3. I understand that the Minister of Agriculture, Fisheries and Food will be minuting the Prime Minister on the handling of the negotiations on the CFP, and his minute could provide the basis for discussion of that subject.

4. I am sending copies of this minute and its two attachments to the private secretaries of the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland.

RTA

Robert Armstrong

12th March 1982

CONFIDENTIAL

EC BUDGET RESTRUCTURING

NOTE BY OFFICIALS

INTRODUCTION

1. OD decided in September (OD(81)15th Meeting) that while the UK ought in logic to be a net beneficiary our fall back objective for a budget settlement should be a nil net contribution. Ministers subsequently agreed that we could for the present be willing to continue to be a net contributor, but only on a very modest scale. We have shown the Germans a table of illustrative figures which included a UK adjusted net contribution of 150 mecus to the allocated budget.

MEETINGS SINCE THE EUROPEAN COUNCIL - CURRENT POSITION ON CHAPTERS I AND II

2. Foreign Ministers met on 14/15 December, 14/15 January and 25 January in an effort to resolve outstanding points of disagreement and to complete the provisional agreement on guidelines on all three chapters of the Mandate. In the event it proved impossible to reach agreement on guidelines for milk and for the budget, and consequently outstanding reserves still remained over Mediterranean agriculture and the guidelines for agricultural expenditure. Since all three chapters of the Mandate are to be carried forward together we have made it clear that the provisional agreements on Chapters I and II are to be held in abeyance.

3. With the exception of the agreement to increase the Ortoli facility by 3 bn ecus, we have no interest in blocking the normal progress of Community business on the items covered by Chapter I (see Annex A). But the provisional agreements reached on Chapter II of the Mandate together with the issues that could not be resolved by Foreign Ministers now fall to be considered in the context of the 1982 agricultural price fixing (see Annex B). Ministers have agreed (OD(E)(82)1st Meeting) that we should block price fixing until a satisfactory agreement has been obtained on the budget.

THE BUDGET PROBLEM

4. The 30 May Agreement set levels of refunds for the UK on the basis of forecasts of our unadjusted net contribution which have turned out to be substantial over-estimates. Nobody is suggesting that this kind of arrangement should be repeated, and it is now envisaged that refunds would be calculated by

/reference

reference to actual outturns. But this would still allow the timing of payments to be broadly similar to the 30 May arrangements.

5. Since the 25 January meeting we have argued that the best way to make progress is through discussion of the substance, ie figures, rather than continuing the search for guidelines, and we have persuaded the Commission to table illustrative figures for 1980 and 1981 as a basis to make such a discussion possible. They have however declined to table figures for 1982. The Germans have made a determined effort to pursue the guidelines approach and may succeed in getting the 23 March Foreign Affairs Council meeting to work on them. The Belgian Presidency is making bilateral contacts in capitals to try to establish the room for manoeuvre.

6. Other member states are still a long way from accepting the UK's objective, but informal contacts have suggested that some may be thinking in terms of a refund of $\frac{2}{3}$ of our unadjusted net contribution. The Commission's present estimate of the UK's unadjusted net contributions to the allocated budget in 1982 is that it will fall within the range 1700-2350 mecus (the figures they have produced internally, but declined to table as we had asked, give a range of 1900-2350 mecus, but the Secretary-General to the Commission has spoken of the bottom end of the range being nearer to 1700 mecus). A $\frac{2}{3}$ refund would still leave the UK with an adjusted net contribution of 575-800 mecus.

7. The concept of net contributions is anathema to the Commission and many member states, and consistently with this the Commission have suggested looking separately at (a) the shortfall in UK receipts and, possibly, (b) the excess in our gross contributions - our percentage share of each being compared with our percentage share of Community GDP, so as to define a "receipts" gap and a "contributions" gap. A mechanism operating on the receipts side only would leave untouched an estimated "contributions" gap of some 700-750 mecus in 1982. While we managed to insert a reference to the Financial Mechanism in the budget guidelines it is far from certain that the other member states will acknowledge the need to deal with the "contributions" gap.

8. Provided that the calculations are made in the same way, the two gaps taken together would exactly measure our uncorrected net contribution. Hence refunds of any given percentage of the two gaps would in effect reimburse us the same

/percentage

percentage of our unadjusted net contribution. If Ministers wanted to have reasonable confidence that the UK's adjusted net contribution would not rise above 150 mecus per year over the five year period for which we are pressing, it would be necessary to set the rate of compensation for both gaps at 95%. The importance of providing compensation for both gaps, and the effect of altering the critical technical definitions is explained in Annex C.

9. Some member states attach importance to the German view, endorsed by the German Cabinet, that the UK adjusted net contribution should rise and Tindemans apparently intends to try to get agreement to a new formula on this on 23 March. We have made it clear to Tindemans that we could not accept any form of degressivity which would lead to an automatic reduction in the UK's refunds over the life of the agreement, regardless of whether the UK's underlying budget problem was being corrected. But we have sought to persuade Genscher that the method of correction put forward by the Commission in para 3 of the draft guidelines would be sufficiently degressive for his purposes. This method would have the effect of reducing the UK's compensation if the restructuring of Community policies led to a reduction in our unadjusted net contribution; and increasing our adjusted net contribution, other things being equal, as the total Community budget increased.

10. We should continue to press for an agreement lasting for five years with a review during the last year. But other member states remain unwilling to go beyond four years, and it may be necessary to concede this point, subject to a review, in the interests of achieving an otherwise acceptable settlement.

THE 1% CEILING

11. Because of the operation of the own resources system all ten member states at present, including the UK, pay extra VAT to finance our refunds, and we are reimbursed not only our refunds, but also our share of these extra contributions. It is generally recognised in Brussels that under any new arrangements Ireland and Greece should not make more than a token contribution. Germany has made it a condition of agreement that her contribution should be relieved; and the Italians have made it clear that they would be prepared to contribute to UK refunds but not to the relief of the German contribution. It has been agreed that the three Chapters of the Mandate should be implemented together. But if all these refunds, in addition to those on the scale we want for the UK, were

/financed

financed from own resources, there would be insufficient room to pay for them within the 1% ceiling even for 1983, still less to pay for the development of policies under Chapter I of the Mandate to which other member states attach importance (see Annex C).

12. For these reasons, consideration is being given in Brussels to the possibility of reviving contributions under Article 200 (which provided a special key for financing before the own resources decision was adopted) when the VAT ceiling is reached. Using Article 200 specifically to finance refunds would be a much simpler way than own resources of adjusting member states' net balances, but would create a political problem for those member states who would have to seek authority from their national Parliaments every year for the Article 200 contributions since the justification for these would be to finance refunds to the UK and, even less acceptably, to Germany. They might find it presentationally less difficult to use Article 200 to finance an amount of ordinary Community expenditure equivalent in size to the refunds, and to which all member states would contribute according to their VAT key. Provided that the expenditure under Article 200 was limited to the total amount of refunds payable each year under the agreement, and was allowed to rise in line with that financing requirement, this could provide an acceptable means of obtaining a five year settlement while not surrendering our position on the 1% ceiling.

13. Some member states are likely to press for a commitment to review the own resources system, either in the context of enlargement or as a means of justifying recourse to Article 200. It might be in our interest to go along with such a proposal if necessary to secure a satisfactory budget settlement, provided that there was no question of any commitment to raise the 1% VAT ceiling. So long as the financing of UK refunds were dealt with by recourse to Article 200 and the rate of growth of CAP expenditure were kept within the growth of own resources as at present defined, it is by no means certain that an objective case could be made for extra sources of Community revenue even after enlargement. Even so, a review of the own resources system might provide us with a new opportunity to work for a fairer basis to the Community's financial arrangements.

ANGLO-GERMAN SUMMIT

14. Our view of what would constitute a reasonable settlement of the budget problem, and that of the Germans are still some way apart. We should use the

/summit

summit as a further opportunity to seek to persuade German Ministers that the level of refund we are seeking is reasonable and that we cannot be expected to agree to the type of degressivity previously advocated by Genscher. We must continue to stress the need for an early settlement to prevent a crisis in the Community which we know Schmidt and Genscher are most anxious to avoid.

FOREIGN MINISTERS' MEETING, EUROPEAN COUNCIL, AND SUBSEQUENT TACTICS

15. The Belgian Presidency does not envisage that it will be possible to reach full agreement by the end of March; neither do we, since other member states are still a long way from agreeing to what we would regard as an acceptable solution. In the absence of unexpected developments our aim at the European Council should therefore be to renew the impetus for a political solution, rather than aiming at that point for a detailed settlement including figures. In preparation for this our objective at the meeting of Foreign Ministers on 23 March should be to build on the progress that has been made, and seek to narrow the areas of disagreement further, without sacrificing any of our points of principle.

16. Our strongest lever for bringing other member states to an acceptable solution on the Mandate is to block the agricultural price settlement. Agriculture Ministers will be meeting immediately after the European Council, (starting on 31 March),and the new marketing years for milk and beef should start at the beginning of April. Because of the complexity of the price fixing this year it may be that the Agriculture Council will not be ready to reach decisions until some weeks after that, and our veto could therefore not be used until then. But there is likely to be strong pressure from some member states at the 31 March Council for decisions to be taken on the common price increase.

17. We expect our veto on agriculture prices to do the trick. But it is possible that some member states will seek to blunt its effectiveness, either by trying to force through price increases by majority vote or by paying temporary aids to farmers from their national exchequers. Officials are considering what further steps the UK might take in those circumstances.

RECOMMENDATIONS

18. Ministers are invited to endorse the following conclusions:

/a.

a. The UK's primary objective is to place an acceptable limit on our adjusted net contribution to the allocated budget. To this end, so long as it seems likely to achieve an acceptable outcome, the UK's negotiating approach should be to seek agreement to compensation at a very high percentage rate of the gaps between the UK's GDP and actual shares of gross receipts from the budget; and between the UK's actual and GDP shares of gross contributions to the budget. If a suitable opportunity arose in negotiation we should seek to have the two gaps merged into a single calculation.

b. The UK should aim for a budget settlement of five years' duration with a review in the last year, but we should be prepared to accept four years with a review if that would help to secure better figures. We should continue to make clear that we cannot accept a degressive settlement which would result in an automatic reduction in the UK's refunds over the life of the agreement regardless of whether the UK's underlying budget problem was being corrected; but we should be willing to see the percentage method of calculating our compensation presented as degressive in order to help other member states present the result to their publics.

c. To prevent the payment of UK refunds being constrained by the 1% VAT ceiling, we should be prepared to agree to alternative methods of financing such as the use of Article 200; but we should not allow such a device to provide an open-ended means of evading the 1% ceiling.

d. If necessary to secure an otherwise acceptable settlement, the UK should be prepared to accept a commitment to review the own resources system in the context of enlargement; but we should not accept any commitment, whether explicit or implicit, to raise the 1% VAT ceiling.

e. The UK's objectives at the Anglo-German summit should be to seek to persuade German Ministers that the level of refund we are seeking is reasonable, that we cannot be expected to accept the type of degressivity previously advocated by Genscher, and that a settlement must be of adequate duration, while impressing on them the desirability of reaching an early agreement.

/f.

f. As the other member states are not yet ready to give us what we want, the UK's objective at the European Council on 29/30 March should be to renew the impetus for a political solution, rather than aiming for a detailed settlement including figures. It will take time for the blocking of agreement on agricultural prices to become effective and to provide the incentive for Foreign Ministers to negotiate a detailed agreement in the period leading up to the June European Council. Our tactics at the 23 March meeting of Foreign Ministers should be framed in the light of this.

g. While our strategy should continue to be based on the assumption that the threat of a veto on the agricultural prices will be effective, we must be on our guard against attempts by other member states to circumvent it. Officials should continue contingency planning on ways of supplementing its effectiveness.

Cabinet Office
10 March 1982

ANNEX A

DRAFT CONCLUSIONS ON CHAPTER 1

1. When the European Council on 29/30 November considered draft conclusions on the 3 Chapters of the Mandate, it did so on the clear understanding that agreement on any part of the guide-lines was conditional on an overall agreement. On this basis, the Heads of State/Government were able to reach provisional agreement on conclusions covering the whole of Chapter 1 (the development of Community policies other than the CAP). Since no overall agreement has been reached, these guidelines remain in limbo and have no formal status. They have not been published.

2. The draft conclusions on Chapter 1 covered a wide range of Community policies:- economic; monetary; borrowing and lending; external trade; internal market; innovation, research and development; energy; social policy; regional policy and transport. On most of these subjects including internal market, research and development, energy and transport, the guide-lines are little more than a résumé of existing business and agreed priorities for the future. On these subjects, work goes on within the Community largely in accordance with the guidelines, although without the extra impetus which European Council endorsement might have given. In these areas the guide-lines contain no firm commitments which are unwelcome to the UK, but they contain a number of references to areas which are of importance to us and where we would like to see progress, for example insurance and air fares.

3. The areas in Chapter 1 which proved most contentious were the Community's borrowing and lending activities, and social and regional policies. The Community has a number of facilities for borrowing on the markets and on lending to infra-structure projects. At French and Italian insistence, the guide-lines contain a firm commitment to expand one of these, the New Community Instrument, by 3000mecu, although the Ecofin Council is left to decide on the conditions and timing of doing so. The

regulations covering both the Regional and Social Funds are due to be reviewed in 1981 and 1982 respectively and the guide-lines contain some pointers for these reviews. It was agreed that both Funds should continue to grow in real terms within the resources available. As for future priorites, the Council agreed that while the Social Fund should continue to support a major effort in the field of vocational training, it should also concentrate more on ensuring better access to the labour market for the young. Discussion on Regional Fund priorities concentrated on the distribution of the Fund's resources between Member States. It was agreed that the quota section (at present 95% of the Fund) should concentrate more, but not exclusively, on the less prosperous Member States. The non quota section, which might give preference to less prosperous Member States, could be increased and should concentrate on structural problems caused by industrial decline or the effects of certain Community policies. On balance, these conclusions are a reasonable compromise, which protect UK interests.

ANNEX B

CAP PRICES

The Commission's proposals

1. The Commission's proposals for agricultural prices for 1982/83 were published on 27 January. They provide for increases averaging approximately 9% and ranging from 6-7% (cereals) to 12% (oilseeds).

2. On milk, the Commission are proposing a 9% increase. The basic co-responsbility levy would continue at 2.5% and to take account of the situation of small milk producers the Commission will propose an income support measure costing around £70 million in the form of a modulation of the basic levy. If milk deliveries increase by more than 0.5% in 1982 compared with 1981 the Commission will propose "appropriate measures" to the Council, but these are not specified.

3. On cereals, the Commission propose increases of 6-7%. They also suggest a co-responsbility scheme whereby, for every million tons by which production exceeds a pre-determined target, intervention and reference prices would be reduced by 1% in the following season subject to a maximum of 5%. The Commission also propose to complete current negotiations to restrict trade in manioc and to examine measures to "regularise" trade in other cereal substitutes: there is a specific proposal to increase levies on cereal brans of low starch content.

4. The Commission propose price increases of 9% on olive oil and wine and 8-10% on fresh fruit and vegetables. They are in addition proposing various changes to the regimes, linked with changes to the acquis which have been proposed in connection with enlargement.

The mandate negotiations

5. In the negotiations on draft European Council conclusions on the mandate provisional agreement was reached on the need for a prudent price policy. All but the Irish could agree to the principle of introducing guarantee thresholds. On milk there was no agreement. We argued against the continuation of the basic co-responsibility levy and strongly opposed modulation of the levy in favour of small producers: we were prepared to contemplate aid to small milk producers only in the context of measures to curb surplus production and provided that the aid was separate from the milk regime and wholly or mainly nationally financed. On cereals, there was provisional agreement on the need for Community prices to come progressively closer to those of competitive countries, which the Commission took to mean the US. There was also agreement on reductions in the intervention price if production exceeded a threshold, but the French linked this to action on cereals substitutes. We were prepared to agree to discussions with third country suppliers on stabilising the level of imports of substitutes. On Mediterranean products there was virtual agreement on the need to improve the existing regulations both from the point of view of producers' incomes and for the sake of efficient and economic management of the market. Subject to reservations by a number of member states there was agreement on a guideline providing that agricultural expenditure should grow less rapidly than own resources. This was, however, subject to a formula

allowing implementation to be evaluated as an average over several years in the case of erratic development of market conditions. There was also a guideline calling for greater discipline in national aids.

6. Given that agreement on any of these points was conditional on agreement on the implementation of the mandate as a whole, it is open to us in the price fixing negotiations both to argue, where it suits us, that provisionally agreed guidelines, e.g. on price policy, guarantee thresholds and the growth of expenditure, should be adhered to and at the same time to resist, at least for the time being, proposals to implement those parts of the guidelines, e.g. on cereals substitutes where we were prepared to make concessions only in the context of an overall settlement. We can also stand firmly on the position we took up on milk.

The price fixing negotiations

7. The Commission's proposals and their link with the mandate negotiation were considered by OD(E) on 11 February. Ministers then agreed inter alia that the UK should block the 1982 CAP price fixing until a satisfactory settlement had been obtained on the budget, that we should argue for price increases lower than those proposed by the Commission, that we should resist any attempt to impose fresh restrictions on the import of cereals substitutes and that we should press for an outcome consistent with keeping the growth of agricultural expenditure below that of own resources.

8. The Minister of Agriculture spoke accordingly when Agricultural Ministers met to consider the proposals for the first time on 15/16 February. He argued in particular that there should be prudent price increases for products in surplus and that the

Commission's proposals on guarantee thresholds should be improved. On milk he argued against the continuation of the basic co-responsibility levy and resisted any discrimination against British milk producers.

9. Germany adopted a similar approach on prices, but other member states - perhaps mindful of COPA's 16.3% bid - called for higher increases than the Commission's 9% average. In particular Ireland called for a figure "substantially higher", Franch called for increases sufficient to end the fall in farm incomes, Greece demanded higher prices and a range of special measures, Denmark wanted more than 9% on livestock products and Belgium called for a more generous settlement overall. The Commission defended their proposals and Ministers agreed to meet again on 15 and 16 (and possibly 17) March and at the end of March. Meanwhile, work is proceeding in the Special Committee for Agriculture and in Council Working Groups, and the UK has so far been able to avoid isolation in these fora.

10. There have been two subsequent developments. First the EMS realignment on 21 February has given Belgium, Luxembourg and Denmark scope for devaluation of their green currency which will reduce their interest in a higher price settlement than that proposed. They have, however, been persuaded to delay any green rate devaluations at least until 1 April and France will want to prevent them taking place until the negotiations are concluded. This will therefore increase the pressure for a settlement by 1 April.

11. Secondly, the French have now established a clear link between the Commission's proposals on fruit and vegetables and wine and

reform of the acquis on these products. It is proposed that the United Kingdom's response to this should be that the mandate for negotiations with Spain and Portugal should be agreed as part of the price package and that it should cover olive oil as well as the products identified by the French. This response seems the best way of avoiding having to buy off the French and other Mediterranean countries twice - once at the price fixing and the second time in the enlargement negotiations.

UK Budget Problem and 1% Ceiling

1. This Note describes some of the technical background to the current negotiations about the British budget problem and the 1% ceiling.

SIZE OF THE BRITISH PROBLEM

2. The Commission are working on the figures. They will be examining very carefully the assumptions made because the 30 May Agreement estimates turned out to be so badly wrong. The new figures will be circulated to member states before the Foreign Affairs Council on 23 March. However the latest Commission working document we have shows that our net contribution to the allocated budget* for 1982, before refunds, may lie in the range 1950-2350 million ecus (say £1¼ billion). Forecasts for subsequent years are necessarily even more uncertain. We have realistically to assume, however, that this net contribution is likely to rise at least in line with inflation and probably in real terms as well - especially after enlargement.

3. The Commission and most other member states would like if they could to banish the whole concept of 'net contributions'. Consistently with this, the Commission have advocated looking separately at the shortfall in UK receipts and, possibly, the excess in our gross contributions. The criterion which they suggest for measuring these two components of the UK problem is our share of Community GDP, averaged over three years. The prospective split for 1982 is:

/i.

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*The 'allocated budget' was the basis of calculations in the 30 May Agreement. It should be remembered that the UK also contributes substantially - perhaps some £150 million in 1982 - to the unallocated budget (about two-thirds of which goes to overseas aid, including food aid); and that our losses outside the budget on agricultural trade with other Community countries are estimated to have been around £200 - 250 million in most recent years.

i. a 'receipts' side gap of 1250 - 1650 million ecus (say, £825 million), and

ii. a 'gross contributions' side gap of some 750 million ecus (say, £425 million).

In other years, the relative magnitudes of the two gaps could be very different, with a rise in our relative GDP increasing the 'receipts' gap and reducing the 'gross contributions' gap and a fall having the opposite effect.

THE COMMISSION SCHEME AND THE FINANCIAL MECHANISM

4. The Commission's proposal for solving the UK budget problem referred to in the draft guidelines considered by Foreign Ministers at their abortive meeting on 25 January is, as we understand it, that the UK should receive a refund of some agreed percentage of the difference between:

i. the UK's actual share of receipts from the Community budget in the year in question - roughly 11%;

ii. what the UK share would be if it were the same as our share of Community GDP averaged over 3 years (the current year and the 2 preceding years) - roughly 19%.

The difference is the 'receipts' side gap. It is clear that the other member states do not envisage repaying us the whole of this sum, but, even if they did, this method on its own would still leave us to meet the 'gross contributions' gap of some 750 million ecus for 1982 - and there would be risks both ways in later years of changes in the split between the receipts and the gross contributions sides of our net contribution. For that reason, the Commission scheme would need to be combined with a revised and improved version of the financial mechanism if it were to provide the basis for a solution. During the negotiations in January we did manage to insert a reference to the financial mechanism into the draft guidelines, but it is far from sure that the others will accept that it should continue. The new version of the financial mechanism that we have in mind would be stripped of the various limitations that have rendered it inapplicable in recent years. We envisage that, by analogy with the Commission scheme described above, the new financial

/mechanism

mechanism should guarantee us a refund of some percentage of the difference between:

iii. Our share of gross contributions to the Community budget - roughly 23%; and

iv. What our share would be if it were the same as our share of Community GDP - roughly 19%.

Provided that the same definition of the Community budget were used in both cases, the same method of calculating GDP shares and a satisfactory common method of relating gross to net payments, then any given percentage of the gap between i. and ii. above plus the gap between iii. and iv. above would be mathematically equivalent to that same percentage of our unadjusted net contribution.

5. Thus, for example, if the Community agreed to give us a net refund of 90% of both the gaps defined above, then our net contribution for 1982 would be 10% of our unadjusted net contribution, or something in the range of 195-235 million ecu. Such figures would lie somewhat above the highest figures for our net contribution after refunds that Ministers have so far envisaged - ie, around 150 million ecu. We should need to get a refund of 95% in both cases to have a reasonable chance of staying within a figure of 150 million ecu throughout the whole of the 5 year period 1982-1986, to which we intend the agreement to apply.

6. It is unlikely that the other member states envisage a refund of more than two-thirds of our unadjusted net contribution - ie, the same proportion as would have resulted from the 30 May Agreement if the estimates had been borne out. A number of contacts have told us informally that in their view a repetition of the two thirds/one third division between the 'Community' and 'UK' shares of our unadjusted net contribution would be appropriate. We cannot be sure of getting agreement to a solution based on proportions. Some are still arguing for degressive refunds. But to illustrate the point, a two thirds refund would leave us with an adjusted net contribution of some 650-800 million ecus in 1982, a figure which is likely to rise over a five year period.

/7.

7. If we got to the position of committing the other member states to a clear offer of two thirds, we should still have to close the gap between the 650-800 million ecus apparently on offer, and the 150 million ecus that Ministers wish to see.

THE SIGNIFICANCE OF THE 1% CEILING

8. The problem of financing the refunds within the 1% ceiling has recently moved into the centre of the informal discussions in Brussels. It is generally accepted that Ireland and Greece should be let off from making anything larger than a token contribution to the refunds to the UK. The Italians have said they are happy to contribute to UK refunds but not to the relief of the German contribution. Germany has made it a condition of the agreement that her contribution should be relieved. Germany would contribute 35-40% of our refunds if they were financed through the normal operation of the own resources system and the budget. Statements by German Ministers could be interpreted in either of two ways: that Germany should in future pay only 25% of 35-40%, ie 9-10%; or that Germany should pay 25% instead of 35-40%. The difference between these two versions of German demands is substantial.

9. At present because of the operation of the own resources system all ten member states, including the UK, pay extra VAT in order to finance our refunds under the 30 May agreement, and we are reimbursed not only our net refunds but also our share of these extra contributions. If our future refunds are to be financed through own resources in the same way, but some countries are to be excused part of the cost, then they too will need reimbursement of contributions and a still higher rate of VAT contributions will be necessary.

10. The amount of headroom available within the 1% ceiling to finance refunds to the UK through the budget in the normal way depends not only on the extent to which the less prosperous countries and Germany are relieved, but also on the rate of growth of regular expenditure. So far as agricultural expenditure is concerned, it is our firm intention that the rate of growth be held within the rate of growth of own resources. For non-agricultural expenditure (from which we currently get and intend to continue to get a modest net benefit), given the general agreement that the structural funds should be expanded, it would be reasonable to expect a significantly higher rate of growth, say 20%.

/According

According to the latest Commission estimates, there seems little prospect that money would be available even in the 1983 budget to finance refunds sufficient to reduce our net contribution in respect of the 1982 Budget to about 150 million ecu, even on the optimistic assumptions that Italy pays in full and that Germany pays as much as 25%. We certainly cannot rely on enough money being available in 1984 and later years, and we cannot tolerate any agreement in which the eventual payment of refunds due to us might be constrained by shortage of budgetary provision within the 1% ceiling.

11. The agricultural countries are concerned lest the solution to the Budget problem inhibit the financing of agricultural policies; and Italy in particular is also concerned lest it should prevent the development of non-agricultural policies as envisaged in Chapter I of the provisional Mandate conclusions. The Commission shares these concerns and has suggested that the refunds to the UK should be financed, not through the own resources system, but by a special key of financial contributions by the member states decided by unanimous vote of the Council of Ministers acting under the provisions of Article 200 of the Treaty. The legality of this proposal has been disputed: many Community lawyers argue that Article 200 became a dead letter when the own resources decision was taken in 1970 under Article 201 of the Treaty. (The text of Article 200 and 201 is attached as an Annex. It will be noted that Article 201 refers to the replacement of the financial contributions by own resources. Hence the argument that Article 200 has now lapsed). However, the Commission's Legal Adviser has formally given his opinion that Article 200 can still be used and it is possible that other governments will supress their legal doubts if no better way can be found of financing the solution to the problem.

12. The use of Article 200 would provide a very much simpler way of relieving Ireland, Greece and Germany (and, if necessary, Italy) than the orthodox use of the own resources system. The latter would necessitate refunds to those countries as well as to the UK in order to pay them back some or all of the contribution they would make to the cost of the refunds through the operation of own resources. If a special key were agreed under Article 200, the relief to Ireland and the other countries could be made simply by adjusting the financial contribution accordingly.

/13.

13. However, such an application of Article 200 would run up against a major political difficulty. The special financial contributions would have to be approved by the parliaments of the member states under their national budgetary arrangements and several member states have made it clear that they would have very great difficulty in seeking authority from their national parliaments for a special payment to finance a refund for the United Kingdom.

14. As a way round that difficulty, the following more elaborate use of Article 200 has been suggested in informal discussions in Brussels. Under this variant the UK refunds would be financed through own resources in the normal way up to the point where the 1% ceiling was reached. At that point, the Council of Ministers would agree to finance through Article 200 a block of expenditure equivalent in size to the cost of the refund scheme to the Community Budget (including the costs of the refunds to Ireland, Greece, Germany and possibly Italy). All the member states would subscribe financial contributions under Article 200 in the same proportions as their VAT share of own resources and the justification would be to enable the regular expenditure of the Community to go ahead while the future of the 1% ceiling was examined. This proposal is thus intended to disguise the fact that the recourse to Article 200 would be necessitated solely by the need to finance refunds to the UK.

15. Agreement to the use of Article 200 would raise a number of important issues for the UK. On the one hand, we share the legal doubts about the continued availability of the powers in this Article. We would also want to be quite sure that the use of this Article would not be treated as a precedent for normal expenditure because, if it were so used, it would bypass the discipline of the 1% ceiling which it is Government policy to enforce. On the other hand, even if the rate of agricultural expenditure were kept within the rate of growth of own resources, there might well not be enough money within the 1% ceiling to finance refunds to the UK on a sufficient scale for the whole of the 5 year period for which we are pressing. Ministers will therefore need to take a view on whether it would be better to acquiesce in the use of Article 200, suitably confined to the UK Budget problem, than to jeopardise either the 5 year duration of the settlement or our position on the maintenance of the 1% ceiling.

/THE 1%

THE 1% CEILING AFTER ENLARGEMENT

16. The Belgian President of the Council of Foreign Ministers is believed to have it in mind to propose some form of commitment to the renewed progress of the Community as an element in the final agreement on the Mandate. This will be attractive to a number of member states, especially Italy. Even France is committed to relance. Increasingly, the Community is considering the implications of the accession of Spain and Portugal. The date of their accession may be delayed beyond 1984 as at present planned, but it is likely to occur during the period of application of the solution of the Budget problem. (Even a 4 year solution would impose a charge on the 1986 Community budget, for example). It is generally assumed that both Spain and Portugal, because they are both so far below average GDP per head, should be net beneficiaries from the Budget at least to some extent - so that their accession will tend to erode and not to increase the leeway within the 1% ceiling. For that reason, it is quite possible that either the Belgian Presidency or the Commission, or both, will propose a commitment by the member states to consider the future of the own resources system in the context of the further enlargement of the Community.

17. It is possible that some member states at least will insist on a review of the own resources system as a condition of their agreement to the use of Article 200 to finance our refunds on a temporary basis. Even if the Germans maintained their resolve not to raise it, UK Ministers might need to consider at some point whether we could go along with some form of obligation to examine the future of the 1% ceiling, perhaps in the context of enlargement.

18. If we did agree to a review in the course of this year's negotiations, that would not commit us to accepting any change to the 1% ceiling when the review took place. But the negotiations on the future of the ceiling would provide us with a new opportunity to secure changes in the Community's financial arrangements. Possibilities that could be discussed are that a binding ceiling should be imposed on the rate of growth of agricultural expenditure corresponding to the informal political agreement incorporated in the draft Mandate conclusions; the replacement of the Value Added Tax element in own resources by some form of progressive tax; the addition of a tax on imported oil designed to bring about a significant adjustment in the UK's unadjusted net contribution; and a commitment to the principle that

/resources

resources should flow from the rich to the poor member states and not vice versa.

DEGRESSIVITY

19. Tindemans has indicated that he will make a new attempt to secure agreement to a guideline on degressivity at the Foreign Ministers'meeting on 23 March. We do not yet know what he has in mind but he is well aware that the UK will accept no form of words that commits us to an arbitrary reduction in our refunds even if our unadjusted net contribution increases. The Foreign Secretary is seeking to persuade Genscher thatthe Commission's objective indicators plus a revised financial mechanism will automatically provide quite enough degressivity to meet German requirements in the sense that (i) our net contribution after refunds will increase, other things being equal, as the size of the budget increases and (ii) the refunds will be reduced as our other receipts increase from a Budget of any given size.

THE ALLEGED OVERPAYMENT TO THE UK

20. At an earlier stage in the negotiations it was suggested that the Budget solution for 1982 and later years should take account of some or all of the 900 million ecu by which the UK's net contribution after adjustment was fortuitously reduced below the figures of 609 and 730 mentioned in the 30 May decision. Less has been heard of this suggestion recently; but we cannot be sure that it will not revive.

THE TIMING OF PAYMENTS

21. The 30 May Agreement was based on an arbitrary lump sum for refunds, derived from Commission estimates of the UK's unadjusted net contribution. The current proposal is that the adjustment should be based on actual figures established on an ex post basis. A reasonable presumption about timing, which broadly follows what happens now, might be that refunds in respect of the 1982 budget, for example, would be paid by the end of March 1983 (so that we could bring them to account in our financial year 1982-83) as a charge to the 1983 Community budget and on the basis of provisional figures for the actual effect of the 1982 budget on the UK. It would then be necessary to have a final adjustment in the middle of 1984 when complete accounts for 1982 were available, in order to bring the refunds paid exactly into line with the application of the agreed method to the actual 1982 figures.

/SUMMARY

SUMMARY

(1) The Commission's 'objective indicator' scheme would only reduce our net contribution to something of the order of 150 million ecu a year if a very high rate of compensation under it were combined with an improved form of financial mechanism.

(2) Although we were able to insert a reference to the possible need for a financial mechanism into the draft budget guidelines, the other member states and the Commission are not yet committed to either its continuation or its improvement to meet our requirements.

(3) Informal contacts suggest that some member states may be thinking in terms of a refund amounting to two-thirds of our unadjusted net contribution as established after the out-turn figures for each year's budget are known. To hold our net contribution down to a figure of around 150 million ecu a year, we should need a refund of some 95% of our unadjusted net contribution. In money terms, the gap between two-thirds and 95% is about 600 million ecu in respect of 1982; and would be likely to increase over a 5 year period.

(4) It is highly unlikely that the Community will be able to finance refunds on the scale we require within the own resources system as at present defined for the whole of the 5 year period; indeed, there is little prospect that there will be enough money in the 1983 budget to finance even the first year's refunds.

(5) It may therefore be in our interest to go along with an agreement to revive financial contributions under Article 200 of the Treaty.

(6) We may come under pressure to agree, as part of the eventual conclusion of the Mandate negotiations, to review the future of the 1% ceiling in the context of the accession of Portugal and Spain.

(7) Even if we agreed to such a review, we should not, of course, be committed to increasing the ceiling. The review, when it took place, would give us an opportunity to fight for new changes in the Community's financial arrangements. Among the possibilities are a binding ceiling on the growth of agricultural expenditure; a progressive tax to replace the VAT tranche of own resources; a levy on oil imports; and a commitment that resources should flow from the more to the less prosperous member states and not vice versa.

/(8)

(8) Tindemans is believed to intend to make a new attempt to agree a formula on degressivity at the next Foreign Ministers' meeting on 23 March.

(9) Little has been heard recently of an earlier suggestion that the '900 million ecu over-payment' to the UK be taken into account in the new settlement; but it may revive.

Cabinet Office
26 February 1982

ANNEX

Article 200

1. The budget revenue shall include, irrespective of any other revenue, financial contributions of Member States on the following scale:

Netherlands	7.9
Germany	28
France	28
Italy	28
Luxembourg	0.2
Netherlands	7.9

2. The financial contributions of Member States to cover the expenditure of the European Social Fund, however shall be determined on the following scale:

Belgium	8.8
Germany	32
France	32
Italy	20
Luxembourg	0.2
Netherlands	7

3. The scales may be modified by the Council, acting unanimously.

Article 201

The Commission shall examine the conditions under which the financial contributions of Member States provided for in Article 200 could be replaced by the Community's own resources, in particular by revenue accruing from the common customs tariff when it has been finally introduced.

To this end, the Commission shall submit proposals to the Council.

After consulting the Assembly on these proposals the Council may, acting unanimously, lay down the appropriate provisions, which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements.

ANNEX C

ARITHMETIC OF COMMISSION SCHEMES

This annex considers what effects compensation schemes of the kind currently under discussion in Brussels might have on our net budget contribution. It also considers what scope there is likely to be for financing UK refunds within the 1 per cent VAT ceiling. The illustrative figures in the tables are based on recent Commission estimates, given to us in confidence (see table 6). Where these estimates are expressed as ranges, we have taken the centre points.

Possible mechanisms

2. Recent discussion has focussed on the two components of the UK's budget problem - the deficiency of UK receipts and (more grudgingly) the excess of UK gross contributions - rather than on our net contribution as such. The criterion envisaged for measuring these two components is the UK share of Community GDP, probably averaged over three years.

3. Corresponding to the two components of the problem there could in principle be two mechanisms for compensating the UK (though several member states are likely to oppose the second one) -

i. an objective indicator (OI) mechanism on the receipts side, which would refund us some percentage of the difference between our actual receipts from the budget and what those receipts would have been if our share of total budget expenditure had been the same as our share of Community GDP averaged over three years, and

ii. a financial mechanism (FM) on the gross contributions side, which would refund us some percentage of the difference between our actual gross contributions and what those gross contributions would have been if our share of total gross contributions to the budget had been the same as our share of Community GDP.

If both mechanisms were in force, with an identical compensation percentage of (say) N per cent in each case and consistent definitions of coverage and entitlement, the effect would be to refund

us N per cent of our uncorrected net contribution. An OI mechanism on its own, on the other hand, with a compensation rate of N per cent, would refund us substantially less than N per cent of our uncorrected net contribution.

Net contribution after refunds (table 1)

4. Table 1 illustrates what our net contribution after refunds might be (or have been) for 1980, 1981 and 1982 with (i) an OI mechanism on the receipts side and (ii) an OI mechanism plus a financial mechanism on the gross contributions side, with consistent definitions of coverage and entitlement.

5. The figures assume that (a) the mechanisms would apply only to that part of the budget which the Commission say they can allocate to individual member states - the so-called 'allocated budget' of the 30 May agreement; (b) the UK GDP share would be calculated in both mechanisms as a moving average of the current and two preceding years; and (c) the gross amounts refunded would be increased (as under the 30 May agreement but not the existing financial mechanism) so as to reimburse us for our contributions to our own refunds and thus produce the correct 'net' amounts.

6. The outcome for the UK would obviously depend critically on the rate of compensation (the N per cent in paragraph 3 above). If both mechanisms were in force, then:

- A 100 per cent rate would reduce our net contribution to that part of the budget covered by the arrangement to zero.

- A 95 per cent rate applied to both mechanisms should keep our net contribution after refunds over the next few years within the figure of 150 million ecus shown in the illustrative table discussed with the Germans in January (line 5).

- A 66 per cent rate applied to both mechanisms (line 6) - the same as the ratio of our refunds to our forecast uncorrected net contribution in the 30 May agreement for

1980 and 1981 - would produce a net contribution after refunds for 1982 similar to that expected in May 1980 for 1981 (some 700-750 million ecus).

If only the OI mechanism on the receipts side were in force, the UK's net contribution after refunds would be substantially greater, for any given rate of compensation - especially in a year such as 1982 when our gross contribution share is expected to be well above our GDP share (see lines 3-4).

7. Our estimated net contribution to the 'unallocated' budget is shown, as a memorandum item, at the bottom of table 1.

Sensitivity to critical parameters (table 2)

8. As implied above, the size of the UK's refunds would depend not only on whether we had an effective financial mechanism and what rates of compensation were agreed, but also on three more technical aspects:

i. the budget total used;

ii. the GDP shares calculation (if there were only one mechanism or if this calculation differed between the two mechanisms): and

iii. the grossing up procedure: whether or not the gross amounts refunded to the UK were increased so as to reimburse us for our own contributions to them.

It would be in the UK's interest that the budget total should be defined as widely as possible and that our refunds should be expressed 'net', payments to the UK being grossed up accordingly. The GDP shares calculation (moving average versus in-year) would be immaterial if there were two mechanisms each using the same calculation. If there were only an OI mechanism, or two mechanisms with our GDP share inconsistently defined between them, different measures of this share would affect the outcome in particular years but there would be no presumption that we would gain or lose over time. Inconsistent definitions would however produce indefensible fluctuations in our refunds. Consistency would therefore be important.

9. Table 2 shows how much we might expect (or have expected) to gain or lose from changes of specification in all the above areas in 1981 and 1982. In other years, the picture could look different. In any year, the amounts at stake are likely to be substantial.

UK refunds and 1 per cent VAT ceiling (table 3)

10. As explained in the main paper, it cannot safely be assumed that there will be enough headroom within the 1 per cent VAT ceiling to accommodate refunds for the UK even in 1983 - much less over the next four or five years. Table 3 illustrates the problem.

11. The 1982 budget estimates imply headroom of some 2.6 billion ecus within the ceiling before allowing for UK refunds (see section 1 of the table). In 1983 and 1984, the amount of headroom will depend on the comparative growth rates of own resources, agricultural expenditure and non-agricultural expenditure. The table illustrates higher and lower CAP expenditure growth cases, 7 percentage points above and 1 percentage point below the growth of own resources, respectively. Also shown is a Commission projection, which lies between the two cases. Except in the high CAP growth case, headroom within the 1 per cent ceiling is projected to remain over 2 billion ecus before UK refunds during these two years.

12. If UK refunds continue to be financed from own resources within the 1 per cent ceiling, the position becomes much tighter. In 1982 the headroom (after allowing for UK refunds for 1981) is currently put at some 1 billion ecus. In 1983, the position would deteriorate sharplyunder the Commission's proposals. For not only are the UK's net refunds for 1982 likely to be larger (at least in the 95 per cent case). But the proposals for lightening the financing burden which the refunds place on Germany and the less prosperous countries will require repayments to these countries as well as the UK, thus increasing the amount of budgetary provision required for any given level of UK refunds. We estimate that if Greece and Ireland were exempted altogether from contributing to our refunds, the Italian financing share were limited to 12½ per cent and the German share to 10 per cent the extra budgetary provision required (and hence the extra headroom used up) would be 2.2 times the net refunds themselves. If the German share were 25 per cent, this factor would fall to 1.7. These factors compare with a factor of 1.3 under the 30 May 1980 arrangements.

13. Sections 2 and 3 of the table illustrate the likely consequences. (A minus sign indicates an excess over the 1 per cent ceiling.) On these figures, there looks to be little or no realistic prospect of accommodating the higher level of UK refunds (the 95 per cent case) within the ceiling in 1983. Even the lower (66 per cent) level of refunds could only be accommodated in the case where (a) the Germans make a large contribution to our refunds and (b) the growth of agricultural expenditure is kept below the growth of own resources.

14. The above problems would disappear if some way can be found of financing the UK refunds outside the 1 per cent VAT ceiling.

Implications for other member states (tables 4 and 5)

15. Under any system for financing our refunds which gives relief to Germany and the less prosperous countries, France and the small rich countries would have to pick up most of the bill. Especially important are the implications for the French, who would have to finance a high percentage of our refunds and (probably) become net contributors on a significant scale.

16. As table 4 illustrates, France's percentage share in financing our refunds would depend critically on how much the Germans contribute. If Germany contributed 10 per cent, France would (on our assumptions) contribute more than 50 per cent. If Germany contributed 25 per cent, the French contribution would fall to some 40-45 per cent.

17. Possible implications for France's net budgetary position after refunds are shown in table 5. The Commission are projecting that France's net budgetary position before refunds will deteriorate by some 500 million ecus between 1981 and 1982. In addition, France's contribution to our net refunds could rise between the two years (on our figures) by between 160 and 660 million ecus depending on the level of our refunds and the German financing

share. On the Commission's latest figures for net positions before UK refunds, the comparison between the British and French net contributions after UK refunds for 1982 would be as follows:

Net contributions (-) for 1982, after UK refunds

(million ecus)

	High UK refunds 95% case	Low UK refunds 66% case
France	-700 to -910	-440 to -590
UK	-110	-730
Germany	-1950 to -2260	-1890 to -2110

5 March 1982

TABLE 1

UK NET CONTRIBUTIONS TO ALLOCATED BUDGET *

	million ecus		
	1980	1981	1982
Present expectations for our net contribution based on the latest Commission figures are:			
1. Before refunds	-1527	-1590	-2153
2. After 30 May agreement			
a. 'intended'	-609	-730	[-730]**
b. now expected	-352	-180	na
Without an effective financial mechanism, our net contribution after refunds would depend on the objective indicator (OI) compensation rate. For example:			
3. 95 per cent rate	-534	-545	-810
4. 66 per cent rate	-837	-864	-1220
If we could negotiate an effective financial mechanism (FM) as well, with the same compensation rate as for the OI mechanism, our net contribution would be (or have been):			
5. 95 per cent rate	-66	-76	-110
6. 66 per cent rate	-512	-538	-730
Memorandum item			
The above figures show our net contribution to the allocated budget only (excluding refunds). Our net contribution to the unallocated budget is estimated to be:	-63	-150	-250

Notes

* Both the objective indicator and the financial mechanism are assumed to use a GDP three-year moving average

** 34 per cent of line 1. Other member states, however, would probably argue for an interpretation of the 30 May agreement less favourable to the UK.

TABLE 2

EFFECTS ON UK NET CONTRIBUTION OF CHANGES IN CRITICAL PARAMETERS, 1981 and 1982

(Favourable change compared with table 1, +)	million ecus 1981	1982
Financial mechanism		
1. Effective FM with 95 per cent compensation rate/no FM	+470	+710
Compensation rate		
2. 10 percentage points rise in OI compensation percentage	+110	+140
3. 10 percentage points rise in FM compensation percentage	+ 50	+ 75
Budget definition		
4. OI applied to whole budget, not allocated budget (at 95 per cent)	+170	+210
5. FM applied to whole budget, not allocated budget (at 95 per cent)	+ 20	+ 40
Gross versus net payments		
6. OI refunds calculated gross (at 95 per cent)	-230	-270
7. FM refunds calculated gross (at 95 per cent)	-100	-140
GDP share calculation		
8. FM uses in-year GDP share but OI as in table 1 (at 95 per cent)	-260	- 35

TABLE 3

POSSIBLE HEADROOM (+) WITHIN 1 PER CENT CEILING WITH AND WITHOUT UK REFUNDS

	1981 Actual	1982 Budget estimate	1983 Projection	1984 Projection
	million ecus			
1. Before UK refunds (or UK refunds financed outside 1% VAT ceiling)				
CAP spending grows at:				
18% pa	+3987	+2638	1645	310
10% pa			2810	2960
Commission estimate			2430	2260
2. UK net refund 95% of net contribution in previous year				
a. Germany pays 10%				
CAP spending grows at:				
18% pa	+2593	+ 984	-2750	-4525
10% pa			-1585	-1875
Commission estimate			-1965	-2575
b. Germany pays 25%				
CAP spending grows at:				
18% pa	+2593	+ 984	-1895	-3585
10% pa			- 730	- 935
Commission estimate			-1110	-1635
3. UK net refund 66% of net contribution in previous year				
a. Germany pays 10%				
CAP spending grows at:				
18% pa	+2593	+ 984	-1405	-3045
10% pa			- 240	- 395
Commission estimate			- 620	-1095
b. Germany pays 25%				
CAP spending grows at:				
18% pa	+2593	+ 984	- 815	-2395
10% pa			+ 350	+ 255
Commission estimate			- 30	- 445

Notes on next page.

TABLE 3:

NOTES

1. The projections for 1983 and 1984 (other than those of the Commission) assume that own resources grow by 11 per cent per annum and that non-agricultural expenditure grows by 20 per cent per annum, except for own resources refunds, administration and development which grow by 11 per cent per annum.

2. The UK's uncorrected net contribution is assumed to be -1590 for 1981, -2153 for 1982 and -2368 for 1983.

3. UK net refunds are assumed to rise correspondingly from 1410 for 1981 to 1420 (66 per cent case) or 2045 (95 per cent case) for 1982.

4. Under the existing system the ratio of gross budgetary provision required to UK net refunds is 1.3. Under the new system, the ratio is assumed to be 2.2 in the case where Germany pays 10 per cent and 1.7 in the case where Germany pays 25 per cent.

TABLE 4

PERCENTAGE SHARES IN FINANCING UK NET REFUNDS *

	German share fixed at: 10%	25%
	a.	b.
UK/Ireland/Greece	-	-
Italy	12.5	12.5
Germany	10.0	25.0
France	52.7	42.4
Belgium	8.5	6.9
Luxembourg	0.4	0.3
Netherlands	11.5	9.3
Denmark	4.4	3.6

*See paragraph 12 for assumptions made.

TABLE 5

NET CONTRIBUTIONS (-) AND RECEIPTS (+) BY MEMBER STATE, AFTER UK REFUNDS (Commission basis, Method II)

million ecus

	1980	1981	1982: UK net refund 95% of UK net contribution. Germany pays: 10%	25%	1982: UK net refund 66% of UK net contribution. Germany pays: 10%	25%
			a.	b.	c.	d.
UK	-350	-180	-110	-110	-730	-730
Ireland	630	580	710	710	710	710
Greece	-	130	610	610	610	610
Italy	520	385	730	730	810	810
Germany	-1965	-2120	-1950	-2260	-1890	-2110
France*	80	240	-910	-700	-590	-440
Belgium	195	300	290	320	340	370
Luxembourg	230	285	310	320	320	320
Netherlands	360	105	50	90	120	150
Denmark	300	275	270	290	300	310

*The Commission are projecting that France's net receipts before refunds will fall from 680 for 1981 to 160 for 1982. France's contribution to the UK's net refunds rises from 440 in 1981 to 1080 in 1982 case (a), 870 in case (b), 750 in case (c) and 600 in case (d).

CONFIDENTIAL

UK BUDGET PROBLEM:
Some relevant figures

TABLE 6

Table 2 - Method II

	Mecus and percentage		
	1980	1981	1982
1. Total budget	14.930	15.943	19.098
2. UK gross contributions to total budget	3.071	3.471	4.484
3. UK gross receipts excl. refunds	1.544	1.881	H.1 2.536
UK net contribution before refunds	1527	1590	H.2 2.126 H.1 1948 H.2 2358
4. UK contributions share of total budget %	20,6 %	21,8 %	23,5 %
5. UK receipts share of total budget %	10,3 %	11,8 %	H.1 13,3 % H.2 11,1 %
6. UK GDP share (in-year) %	(without Greece) 19,0 %	20,4 %	19,8 %
7. UK GDP share (average of current and two preceding years) %	(without Greece) 17,3 %	18,7 %	19,6 %
8. Objective indicator percentage			
a (6 above minus 5 above)	8,7 %	8,6 %	H.1 6,5 % H.2 8,7 %
b (7 above minus 5 above)	7,0 %	6,9 %	H.1 6,3 % H.2 8,5 %
9. "Financial mechanism" percentage			
a (4 above minus 6 above)	1,6 %	1,4 %	3,7 %
b (4 above minus 7 above)	3,3 %	3,1 %	3,9 %
10. Objective indicator gap			
a (8a times 1)	1.299	1.371	H.1 1.241 H.2 1.661
b (8b times 1)	1.045	1.100	H.1 1.203 H.2 1.623
11. "Financial mechanism" gap			
a (9a times 1)	239	223	707
b (9b times 1)	493	494	745

SOURCE: EC Commission, in confidence

FILE

RM 7

10 DOWNING STREET

11 March, 1982

From the Private Secretary

The Mandate - Bilateral Discussions with the Elysee

The Prime Minister held a meeting this morning to discuss the line that Sir Robert Armstrong and Mr Hancock should take in their proposed talks with Monsieur Attali, provisionally arranged for the morning of Wednesday, 17 March. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, Sir Robert Armstrong and Mr Hancock were present. The meeting had before it a minute from Sir Robert Armstrong dated 5 March, enclosing a draft brief for the talks and a letter from Mr Kerr, dated 10 March, enclosing a revised version of that draft brief.

Sir Robert Armstrong reported on his talks with Herr Lahnstein in Bonn on 10 March. Lahnstein had said that the German Government would not in the last resort make great difficulties about money since Germany's current account was rapidly improving. But they would feel obliged to go along with the French on degressivity. The implication seemed to be that the German Government would agree to anything that the French Government could be persuaded to accept.

The meeting noted the importance still placed by other member states on degressivity. It was suggested that the French might be willing to pay more money if the solution contained an element of degressivity going beyond what the United Kingdom had so far agreed to accept. Officials should therefore consider whether some formula could be devised which would give the appearance of degressivity but still be defensible in the United Kingdom. A possible approach was a degressive feature which would only be triggered in certain circumstances unlikely to arise.

The meeting discussed President Mitterrand's objective in authorising the talks between Sir Robert Armstrong and Monsieur Attali. It was noticeable that, even though Monsieur Chandernagor

/had

SR

had said some fairly aggressive things, the general tone of French press guidance during these negotiations had been much less aggressive than in the winter of 1979/80. This suggested that either the French Government genuinely did want a settlement or that they thought that time was on their side. The second explanation seemed implausible, given that they knew that the United Kingdom would be able to block the price fixing though the French might (as Lahnstein had suggested) be thinking that they could circumvent a British veto on the price fixing by introducing national aids. It seemed likely that President Mitterrand's objective was to discover the true extent of the United Kingdom's requirements for a settlement.

The meeting considered the revised draft brief attached to Mr Kerr's letter dated 10 March. The Chancellor of the Exchequer stressed that it would be most unwise to offer any concession on figures going beyond the 90%/10% split referred to in paragraph 9 of the draft.

Summing up the discussion the Prime Minister said that Sir Robert Armstrong should make it clear to Monsieur Attali that the Government's political requirement was for a substantially more favourable solution than that incorporated in the 30 May Agreement as defined. The solution must be consistent with the need to present the United Kingdom's net contribution as modest. Subject to that, Sir Robert Armstrong should be guided by the revised draft brief attached to Mr Kerr's letter of 10 March.

I am sending copies of this letter to John Kerr (HM Treasury) and David Wright (Cabinet Office).

F N Richards, Esq
Foreign and Commonwealth Office

Please type letter 6

A.J.C. 12/3

COVERING SECRET AND PERSONAL

Qz.02497

1. SIR ROBERT ARMSTRONG - if you agree

2. MR A J COLES

I attach a draft letter for you to send to the Foreign Office and the Treasury reporting the outcome of this morning's meeting.

D.H.

D J S HANCOCK

11 March 1982

Content

RWA 11 iii

COVERING SECRET AND PERSONAL

FR.

Draft letter to:

PRIVATE SECRETARY/FOREIGN AND COMMONWEALTH SECRETARY

cc: Private Secretary/Chancellor of the Exchequer
Sir Robert Armstrong

THE MANDATE - BILATERAL DISCUSSIONS WITH THE ELYSEE

1. The Prime Minister held a meeting this morning to discuss the line that Sir Robert Armstrong and Mr Hancock should take in their proposed talks with Monsieur Attali, provisionally arranged for the morning of Wednesday 17 March. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, Sir Robert Armstrong and Mr Hancock were present. The meeting had before ~~them~~ it a minute from Sir Robert Armstrong dated 5 March, enclosing a draft brief for the talks and a letter from Mr Kerr, dated 10 March, enclosing a revised version of that draft brief.

2. Sir Robert Armstrong reported on his talks with Herr Lahnstein in Bonn on 10 March. Lahnstein had said that the German Government would not in the last resort make great difficulties about money since Germany's current account was rapidly improving. But they would feel obliged to go along with the French on degressivity. ~~Lahnstein implied~~ The implication seemed to be that the German Government would agree to anything that the French Government could be persuaded to accept. ~~He~~ Lahnstein also ~~said that the French might circumvent a British veto on the price fixing by introducing national aids~~.

3. The meeting noted the importance still placed by other member states on degressivity. It was suggested that the French might be willing to pay more money if the solution contained an element of degressivity going beyond what the United Kingdom had so far agreed to accept. Officials should therefore consider whether some formula could be devised which would give the appearance of degressivity but still be defensible in the United Kingdom. A possible approach was a degressive feature which would only be triggered in certain circumstances unlikely to arise.

4. The meeting discussed President Mitterrand's objective in authorising the talks between Sir Robert Armstrong and Monsieur Attali. It was noticeable that, even though Monsieur Chandernagor had said some fairly aggressive things, the general tone of French press guidance during these negotiations had been ~~vastly~~ much less aggressive than in the winter of 1979/80. This suggested that either the French Government genuinely did want a settlement or that they thought that time was on their side. The second explanation seemed implausible, given that they knew that the United Kingdom would be able to block the price fixing. It ~~was therefore reasonable to conclude~~ seemed likely that President Mitterrand's objective was to discover the true extent of the United Kingdom's requirements for a settlement.

though ~~but~~ the French might (as Lahnstein had suggested) be thinking that they could overrule a British veto on the price fixing by introducing national aids -

5. The meeting considered the revised draft brief attached to Mr Kerr's letter dated 10 March. The Chancellor of the Exchequer stressed that it would be most unwise to offer any concession on figures going beyond the 90%/10% split referred to in paragraph 9 of the draft.

6. Summing up the discussion the Prime Minister said that Sir Robert Armstrong should make it clear to Monsieur Attali that the Government's political requirement was for a substantially more favourable solution than that incorporated in the 30 May Agreement as defined. The solution must be consistent with the need to present the United Kingdom's net contribution as modest. Subject to that, Sir Robert Armstrong should be guided by the revised draft brief attached to Mr Kerr's letter of 10 March.

7. I am sending copies of this letter to John Kerr and Sir Robert Armstrong.

A J. C. 11/3

GRS 140 CONFIDENTIAL

CONFIDENTIAL
FRAME ECONOMIC
FM UKREP BRUSSELS 101725Z MAR 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 923 OF 10 MARCH
INFO PRIORITY BONN
INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
LUXEMBOURG ATHENS

30 MAY MANDATE:

1. THE GERMAN PERMANENT REPRESENTATION HAVE TOLD US THAT WHEN TINDEMANS AND THORN SAW GENSCHER ON 4 MARCH THEY SAID THAT THEY WERE PREPARING A NEW PROPOSAL UNDER WHICH, INTER ALIA, THE UK SHOULD RECEIVE A REBATE OF 75 PER CENT OF THE OBJECTIVE INDICATOR GAP. THERE WAS NO SUGGESTION OF ANY COVERAGE OF THE FINANCIAL MECHANISM GAP.

2. THE GERMANS ALSO TELL US THAT THE TWO PRESIDENTS WERE ATTRACTED BY THE GERMAN IDEAS ON DEGRESSIVITY, TO THE EXTENT THAT THESE WERE EXPLAINED, AND THAT DISCUSSION OF THEM IS CONTINUING AT OFFICIAL LEVEL.

FCO ADVANCE TO:
FCO - BRIDGES HANNAY FONBLANQUE
CAB - HANCOCK
TSY - LITTLER EDWARDS

FCO PASS SAVING COPENHAGEN THE HAGUE ROME DUBLIN PARIS
LUXEMBOURG ATHENS

BUTLER

FRAME ECONOMIC
ECD (I)
PS
PS/PUS

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CONFIDENTIAL

SECRET

5

PRIME MINISTER

The Mandate

We have arranged a meeting after OD, to be attended by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, Sir Robert Armstrong and Mr. Hancock. The purpose is to discuss what instructions should be given to Sir Robert Armstrong for his talk with M. Attali. The meeting with Attali was to have been this Friday, but has now been postponed until next Wednesday.

With his minute of 5 March, Sir Robert Armstrong submitted a draft of his instructions as a basis for discussion. But the Chancellor has now submitted an amended version. I understand that he has discussed it with Lord Carrington and that they do not disagree significantly. I suggest, therefore, that you take the amended version (at Flag B) as a basis for the meeting.

A. J. C.

10 March, 1982

SECRET

Qz.02493

PRIME MINISTER

Cabinet: Community Affairs

1. The Secretary of State for Industry might report on the 8 March Research Council, which succeeded in agreeing new financial ceilings for the fusion and raw material research programmes which safeguarded the British Joint European Torus (Jet) interest whilst providing for cuts in other parts of the programme.

2. Next week the Foreign and Commonwealth Secretary will meet M Cheysson, the French Foreign Minister, on 15 March and Messrs Tindemans and Thorn are expected on 16 March, as part of the series of bilateral visits they are making to capitals on the Mandate. You have convened a restricted meeting of Ministers on 17 March to review United Kingdom objectives and tactics for the next stage of the Mandate negotiations. The Finance Council meets on 15 March, the Agriculture Council on 15/16 March and the Energy Council on 16 March.

D.H.

D J S HANCOCK

10 March 1982

SECRET

4

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

10 March 1982

A J Coles Esq
No.10 Downing Street

MT

Dear John,

THE MANDATE : BILATERAL TALKS WITH THE ELYSEE

The Chancellor has studied Sir Robert Armstrong's minute and draft brief of 5 March and would like to offer the following thoughts.

The Chancellor begins from the premise - which he assumes his Ministerial colleagues will all share - that the Government needs to obtain a really good budget settlement - as close as possible to the figure of 150 million ecus for our net contribution to the allocated budget included in the illustrative table which we discussed with the Germans in January. In the Chancellor's view, a really good settlement is needed for reasons of domestic politics and in order to swing public opinion in the UK behind the Community over the longer term. It is also needed for reasons of public expenditure and economic management. It is important to note in this context that the net contribution figures discussed in Brussels relate only to that part of the budget which the Commission say they can allocate between Member States. They take no account of (a) our contribution to the unallocated budget (some £150 million a year, including aid and food-aid, or some £50 million excluding these items); or (b) the continuing cost in inflationary times of receiving refunds in arrears (perhaps £100 million a year at a time of 10 per cent inflation); or (c) trading losses outside the budget on food imports from our Community partners (some £200-250 million a year in most recent years). Items (a) and (b) are reflected in Public Expenditure White Paper figures for our net budget contribution substantially higher than the figures discussed in Brussels. Item (c), though not part of our budget contribution, is a charge on consumers and uses up taxable capacity.

The Chancellor regards the latest French request for bilateral talks as an encouraging sign. It suggests that the French Government are beginning to feel domestic political pressures

/for a quick

for a quick conclusion to the annual farm price fixing and that they now recognise that a solution to the UK's budget problem will be a pre-requisite for this. A bilateral understanding between the French and ourselves is likely to be a crucial element in any budget settlement - if only because the French are likely to end up financing between 40 per cent and 55 per cent of our refunds, the precise percentage depending on how much the Germans contribute.

On the other hand, the Chancellor believes that we need to be extremely cautious about making, or appearing to make, concessions of substance at this stage. If we even hinted at the possibility of a rate of compensation of 80 per cent, for example, the French would almost certainly report this back to the Germans and others. An 80 per cent rate (implying a UK net contribution of perhaps some 430m ecus for 1982) would then tend to be regarded as the UK's starting position in the next round of the negotiations. (We should also remember that, as part of a package settlement, we could well find ourselves being pressed to concede more on agriculture than our own interests would suggest.)

In the Chancellor's view, there are two additional reasons for caution at this stage. The first is that we cannot in practice settle the budget problem bilaterally with the French. Other Member States, too, will be concerned with financing our refunds. For the French themselves, the amount they contribute to our refunds is likely to be critical, and that will depend on how the refunds are financed - in particular, how much the Germans contribute - as well as on the total amount of the refunds. If we cannot reach a complete deal with the French at this stage, we must keep firmly up our sleeves concessions which we might be prepared to make later in order to clinch a deal.

The second consideration is that the French almost certainly have a keener interest in a quick solution than we do. The onus should therefore be on them, not us, to start offering concessions.

In the Chancellor's view, issues such as the 1 per cent VAT ceiling and our interests in future price fixing negotiations will likewise need careful handling. The new budget settlement is likely, by one means or another, to fix our net contribution after refunds at some percentage of our net contribution before refunds. And the latter is likely to rise if the 1 per cent ceiling is raised. Hence it will continue to be in our interests to maintain the 1 per cent ceiling; and we must avoid hinting at this stage that we might be prepared to raise it, just as we must avoid later any moral commitment to raise it. We have

/to assume that

to assume that the line we take on this and on the price fixing, will be reported back to the Germans; and we need to have this in mind in what we say bilaterally to the French.

In the Chancellor's view, these considerations point to amending the brief so as:-

i. to avoid any form of words which could be construed as hinting that we might come down to an 80 per cent compensation rate;

ii. to insist that the French must drop their arguments about degressivity and the "overpayment" in all cases (not just in the 80 per cent case);

iii. in the interests of keeping the bidding low, to focus on the actual outcome for 1981 rather than the average outcome for 1980 and 1981; and

iv. to avoid any form of words suggesting that we might be prepared to raise the 1 per cent VAT ceiling or that a budget settlement would remove any overriding UK national interest in the annual price negotiations.

... The attached copy of the draft brief includes some specific amendments covering the above and certain other points.

One further point which the Chancellor would like to make is that a great deal of money is likely to be involved in the technical specification of any mechanisms for UK refunds (see the paper on the "arithmetic of Commission schemes" which Mr Hancock sent to you yesterday, especially table 2). It is of interest in this connection that relating our refunds to the total budget (excluding UK refunds), rather than the more narrowly defined "allocated budget", could be worth something like 10 percentage points on the rate of compensation. In other words, an 85 per cent settlement applied to the total budget should give us a similar amount of refund to a 95 per cent settlement applied to the allocated budget alone. If the rate of compensation figure itself should become an emotive issue at some stage in the negotiations, therefore, the idea of applying a somewhat lower percentage to the wider total might just possibly turn out to be useful.

Copies of this letter go to Brian Fall in the FCO and to Sir Robert Armstrong.

Yours ever,

John Kerr.

J.O. KERR
Principal Private Secretary

SECRET AND PERSONAL

B

30 MAY MANDATE: BILATERAL TALKS WITH ELYSEE

Draft brief for Sir Robert Armstrong

Objective

1. To establish the basis for an agreement with the French President covering the essential components of a solution to the problems of the 30 May Mandate and CAP prices which France and the United Kingdom would then go on to sell to the Commission and the other Member States.

Coverage

2. The following subjects either ought to be included in any such agreement, or are likely to be necessary to secure the agreement of the French Government:-

(i) The figures for a budget settlement.

(ii) How to finance it.

(iii) Duration and review.

(iv) CAP prices.

(v) Small milk producers.

(vi) Fish.

Figures for budget settlement

3. Mitterrand criticised Giscard for the 30 May Agreement. His political requirement is therefore to be able to present the new settlement as less favourable to

/the

the United Kingdom. HMG, by contrast, needs, as a minimum, to do better than the 30 May Agreement.

4. Because the Commission over-estimated the UK's unadjusted net contribution for 1980 and 1981, the 30 May Agreement did not work out as intended but will in fact be much more favourable to the UK. The effect of the figures quoted in the agreement would have been to allocate 34% of the unadjusted net contribution to the UK, the rest of the Community giving relief for the other 66%. In the event the UK share looks like being very much less than 34%, as shown in the table below.

As implied by Commission figures

Year	Unadjusted Net Contribution	Net Contribution after Adjustment	mn ecus UK Share
1980	1784	609	34%
1981	2140	730	34%

What actually happened (according to latest estimates)

1980	1527	352	23%
1981	1590	180	11%

The average UK share for 1980 and 1981 combined works out at 17%.

5. The UK has already conceded that the new settlement should be based on out-turn figures and not on estimates. In fact this gives security to both sides, not just the French; but Mitterrand could present the change as a victory for France if it helped him.

6. In the talks with the Elysee we should explore in confidence the possibility of a formula which (might satisfy the political requirements of both sides — a formula which) would be better for the UK than the intention underlying the 30 May figures but somewhat worse than ~~how~~ they actually worked out for 1981. ~~Both sides could thus satisfy their political requirements.~~

7. In 1982 the UK's unadjusted net contribution is thought likely to lie in the region 1700-2350 million ecu. In the years ahead it will probably rise at least in line with inflation and perhaps a bit more, although a shift in the balance of Community expenditure would help. Assuming that it rose at 10% a year, and that the settlement was for 4 years covering 1982-85 inclusive*, then it would reach 2300 million ecu starting from a base of 1700 million ecu in 1982. ~~(ie less than the higher end of the range quoted above for 1982).~~ It would reach ~~3200~~ 3100 million ecu if the starting figure for 1982 was 2350.

8. The following table shows what our net contribution would be after adjustment if the unadjusted net contribution were shared between the Community and the UK in the proportions at the top of each column. The left hand column is the 95%/5% split which would be necessary to keep the UK's net contribution after

/adjustment

*See para 13 below.

adjustment to about 150 million ecu a year. The right hand column is the intended 30 May split. The table thus defines the area within which s olution needs to be found.

					mn ecus
	95/5	90/10	80/20	75/25	66/34
1700	85	170	340	425	580
2350	120	240	480	590	800
3200	160	320	640	800	1090

9. Sir R. Armstrong should make it clear at the outset that the UK is not prepared to accept:-

(i) degressivity in a sense which goes beyond the automatic result of the percentage sharing formula described in para. 8 above.

<u>or</u> (ii) Adjustment of the formula to take account of any part of the "900 mecus overpayment".

He might then begin by pointing out that a 95%/5% split would be likely to produce a figure for future years of roughly the same size as the one that actually occurred in respect of the 1981 budget. The French side will presumably reject this out of hand. Sir R. Armstrong should then suggest that UK Ministers might be prepared to consider a new solution of 90%/10%. He should not give any cause for the French to take away the impression that the UK would go any further than this. He should however seek to draw the French on their own calculations.

/9A.

9A. If they were to propose 85%/15%, Sir Robert Armstrong should agree to report their suggestion to British Ministers. If the French propose any solution less favourable to the UK than this, then Sir R. Armstrong could agree to report their suggestions to British Ministers but should say that he sees no prospect of agreement and decline to contemplate any change in the UK position on CAP prices or small milk producers.

10. In fact, an 85%/15% split would be a better deal for the UK than the figures which HMG accepted on 30 May 1980. Mitterand could defend it in France by pointing out that it would be less favourable to

/the

the UK than the way the 30 May Agreement actually worked out in practice for 1981.

11. It will be important to ensure that there is no misunderstanding with the French about the basis of the figures under discussion. The percentages and figures discussed above all relate to our net contribution, not to the receipts gap identified by the Commission, ie the gap between our GDP and actual shares of receipts from the Community budget. If the French want to follow up the Commission's approach, they should understand that the correction will need to be applied not just to the receipts gap but also to the contributions gap, ie the gap between our actual and our GDP shares of gross contributions to the Community budget. (The two gaps taken together amount to our net contribution.) This would mean that the financial mechanism would have to be amended to remove the constraints which at present prevent it from operating.

Finance within the 1% ceiling

12. The UK should be prepared to explore the possibility of French agreement to the following use of Article 200 which has already been suggested in informal discussions

/in

in Brussels. The refunds to the UK (and corresponding relief for Greece, Ireland, Germany and, if necessary, Italy) should be financed through the own resources system in the normal way up to the point where the 1% ceiling is reached. At that point the Council of Ministers should agree to finance through Article 200 a block of expenditure equivalent in size to the cost of the refunds scheme to the Community budget. All the Member States would subscribe financial contributions under Article 200 in the same proportions as their VAT share of own resources. The justification would be ~~to enable the regular~~ expenditure ~~of the~~ on Community policies. ~~to go ahead while the future of the 1% ceiling was examined.~~ It would not therefore be necessary for Member States to seek budgetary authority from their parliaments for a payment explicitly benefitting the UK.

to prevent the UK refunds from constraining

Duration and Review

13. Provided that the French accepted a review and if they made a proposal on figures which we could accept, then Sir R Armstrong could say that British Ministers might be prepared to contemplate ~~concede~~ a duration of four years. If he is referring back to the Prime Minister on figures, he could also offer to ~~submit~~ report to her a proposal for four years with a review, if the French press for this.

/14.

CAP Prices

14. Sir R Armstrong should say that the French must realise that the UK could not be expected to accept any CAP price settlement more costly than what was acceptable to the Germans and the Dutch. But, in return for an acceptable budgetary settlement, he should offer, on the Prime Minister's behalf, an assurance that the UK would in the end agree to an average level of price increases acceptable to the Germans and the Dutch. If the French raise the subject of MCAs, He should ~~[however]~~ make it clear that we cannot accept the Commission's proposal for ~~[reducing our m.c.a.]~~ The French government would, of course, have to understand that the UK could not move to that position immediately, but would only make the necessary concessions at the final stage of the negotiation of the price package.

revaluing the Green pound which, as it stands, would bear too hard on British farmers.*

Small milk producers

15. Sir R Armstrong should begin by stressing that the United Kingdom's concern with the milk surplus was sincere. We believe that this year's price settlement must include measures to curb the surplus. ~~We would hope that the French government would share our desire to contain the costs of milk surpluses~~

/to

* It was agreed at OD(E) that the decision on the Green £ would have to await the prices settlement.

~~to the Community budget~~. However, we recognise that the position of small milk producers constitutes a political problem for the French government, and as part of a general settlement, including a satisfactory settlement of the budget issue, we should be prepared to see something done to help small milk producers involving a cost to the Community budget within the ceiling of 120 million ecu a year, as discussed at the meetings of Foreign Ministers in January. But we have genuine problems about the idea of giving this assistance through exemptions from or abatements of the levy and considered that ~~a degressive~~ the form of the Community assistance would need to be negotiated between experts.

(If necessary, Sir R Armstrong should make it clear that any agreed support for small producers on top of this figure would have to be financed nationally.)

(responsibility)

Fish

18. We should make it clear to the French that we are not making a link between fish and the solution to the 30 May Mandate issues and the CAP prices package. On the other hand, we should take the opportunity to warn the French President of the danger of allowing the matter to drift on unresolved until the end of the year. We might therefore suggest for his consideration that he and the Prime Minister should instruct their fisheries Ministers as follows:-

/(i)

(i) A solution to the fisheries problem should be found before the end of the year;

X (ii) Both sides would need to look again at ~~compromise on~~ the outstanding problems of access and quotas;

(iii) Each side should recognise that the other had an important presentational problem in persuading its industry to accept a negotiable settlement;

(iv) For that reason, both sides should co-operate over the presentation so as to facilitate the task of selling the negotiated settlement to both industries.

Guarantee of good behaviour

17. We understand that French Ministers are very worried at the prospect of being held to ransom by the UK at the price fixing every year over one issue or another. Like their predecessors in 1980, they are trying to think of a way of stopping us doing this.

18. If this anxiety is raised, Sir Robert Armstrong should point out that the UK agreed to the price fixing in 1981 very quickly (as quickly as any other

/Member

Member State) because the 30 May Agreement had disposed of the budget problem for 1981, so that the UK was able to concentrate on the agricultural rather than the financial aspects of the price decisions. If the budget issue could now be put on one side for 5 (or 4) years, the UK would similarly in future years have no reason to block the price fixing ~~overriding~~ in order to obtain a budgetary settlement ~~national interest to protect in the price negotiations~~. Even so, there could still be genuine differences of view between the two governments about agricultural policy issues - for example, over the proper balance to be struck between the interests of consumers and tax payers on the one hand and those of producers on the other; and over the effects of the CAP on international trade; but these differences of view between the UK and France would be no different from, and no greater than, those which would or might exist between various other governments - eg between Germany and Italy over Mediterranean products.

19. Sir R Armstrong should <u>not</u> mention fish in this context. If the French were to raise it, Sir R Armstrong should say that we assume that that will have been settled (see para 16) and that therefore the possibility of bad behaviour does not arise.

GRPS490
CONFIDENTIAL [FRAME ECONOMIC]
FM BRUSSELS 091700Z MAR 82
TO IMMEDIATE FCO
TELNO 90 OF 09 MARCH
INFO SAVING EC POSTS AND ANKARA

MANDATE

1. AT A FAREWELL LUNCH TODAY I ASKED TINDEMANS WHETHER ANY PROGRESS HAD BEEN MADE ON THE MANDATE DURING HIS TALKS IN BONN LAST WEEK AND IN THE HAGUE YESTERDAY. HE REPLIED THAT HE HAD BEEN SURPRISED TO FIND A DISPOSITION AMONG HIS INTERLOCUTORS TO RETURN TO THE GUIDLINES, WHICH COULD HE SUPPOSED STILL MAKE PROGRESS: AGREEMENT DURING THE LAST INFORMAL FOREIGN MINISTERS DICUSSION,HE SAID,HAD BEEN VERY CLOSE.

2. WHEN I PRESSED HIM FOR DETAILS, HE SAID THAT THE DUTCH FOR EXAMPLE HAD NOT BEEN QUOTE ORTHODOX UNQUOTE ON THE PERIOD OR ON DEGRESSIVITY(COMMENT:THIS SEEMS TO HAVE BEEN AN OBSCURE REFERENCE TO THE RUTTEN PROPOSAL, WHICH THE HAGUE TELNO 48,I NOTE,ALSO MENTIONS).WHEN I THEN OUTLINED OUR OWN NEW THINKING ON DEGRESSIVITY ON THE LINES OF FCO TELNO 85 TO BONN HE LISTENED CAREFULLY, BUT OBSERVED THERE WAS SIMPLY NO MONEY AVAILABLE FOR DEVELOPING NEW POLICIES WHICH MIGHT IN TIME INCREASE OUR RECEIPTS.

3. TINDEMANS THEN PRODUCED WHAT HE DESCRIBED AS THE FOUR MAIN INGREDIENTS FOR PROGRESS OUTSIDE THE MANDATE WHICH MIGHT INDUCE THE NECESSARY FAVOURABLE ATMOSHERE FOR FINDING A COMPROMISE:-

(I) AGREEMENT ON THE CULTURAL FOUNDATION:
(II) SOMETHING ON GENSCHER/COLOMBO:
(III) THE UK JOIN THE EMS:
(IV) AGREEMENT BY THE UK TO INCLUDE NORTH SEA OIL IN SOME NEW COMMUNITY ENERGY POLICY.

4. IN RESPONSE I SAID THAT WHILE IT MIGHT NOT BE TOO DIFFICULT TO PRODUCE A CONSENSUS ON THE FIRST TWO ITEMS, HE WOULD FIND THAT DISORGANISED ARRANGEMENTS SURROUNDING THE RECENT DEVALUATION OF THE BELGIAN FRANC HAD LEFT A BAD IMPRESSION. THUYSBAERT, WHO WAS ALSO PRESENT, INTERJECTED THAT IT PROVED AT LEAST THAT AN ORDERLY

CURRENCY ADJUSTMENT WAS POSSIBLE. AS FOR NORTH SEA OIL, I SAID, IT WAS DIFFICULT FOR US TO JUDGE THIS SINCE IT WAS NEVER CLEAR TO US WHAT EXACTLY THE BELGIANS HAD IN MIND. TINDEMANS IN EXPLAINATION LAUNCHED INTO A LONG ACCOUNT OF AN EARLIER EUROPEAN COUNCIL MEETING IN 1975 AT WHICH HE CLAIMED WE HAD VIRTUALLY AGREED TO ACCEPT AMONG OTHER THINGS A GUARANTEED MINIMUM SELLING PRICE FOR OIL: BUT THIS HAD NEVER EVENTUATED. HE SAW NO REASON WHY WE COULD NOT REACH AGREEMENT ON THIS NOW. I ASSUME THAT HE WILL DEVELOP THESE IDEAS IN MORE DETAIL WHEN HE IS IN LONDON NEXT WEEK.

5. DURING THE CONVERSATION MORE DETAILS EMERGED OF TINDEMANS' PROGRAMME OF VISITS TO COMMUNITY CAPITALS. HIS VISIT TO ONDON ON 16 MARCH WOULD HE HOPED, HE SAID, BE HIS LAST PORT OF CALL. AS TO THE OTHERS, HE WILL VISIT PARIS ON 15 MARCH AND HE WAS FLYING OFF THIS AFTERNOON TO LUXEMBOURG PRIOR TO ATTENDING THE EUROPEAN PARLIAMENT. THERE MAY ALSO BE A VISIT TO ROME POSSIBLY AT THE END OF THIS WEEK, ALTHOUGH HIS CABINET SAID THERE WAS A POSSIBILTY THAT HE WOULD ALSO STOP OVER AT ROME ON 18 MARCH ON THE WAY TO ANKARA FOR HIS PRESIDENCY VISIT NOW FIXED FOR 19 MARCH: HE MAY VISIT ATHENS ON 20 MARCH ON HIS WAY BACK FROM ANKARA(THOUGH THIS SEEMS INCONSISTENT WITH TINDEMANS'CLAIM THAT HIS SERIES OF COMMUNITY VISITS WOULD FINISH WITH LONDON).

FCO PLEASE PASS TO SAVING ADDRESSEES.

WAKEFIELD

[REPEATED AS REQUESTED]
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ECD(I)
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PS/PUS

PRIME MINISTER

We are about to embark on a series of meetings relating to the EC Mandate issue. You may find it helpful to have a list.

Wednesday 10 March
Discussion of figures with Treasury and Cabinet Office officials.

Thursday 11 March
Discussion with Foreign Secretary, Chancellor, Sir Robert Armstrong and Mr. Hancock of instructions for Robert Armstrong's next meeting with M. Attali.

Friday 12 March
Sir Robert Armstrong meets Attali in London.

Tuesday 16 March
Call by M. Thorn and M. Tindemans.

Wednesday 17 March
Restricted meeting of Ministers to discuss UK policy on the Mandate.

Friday 19 March
Anglo/German Summit

Monday/Tuesday 22/23 March
Foreign Affairs Council.

Monday/Tuesday 29/30 March
European Council.

A. J. C.

9 March 1982

GRS 380

CONFIDENTIAL

CONFIDENTIAL [FRAME ECONOMIC]

FM THE HAGUE 091035Z MAR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 048 OF 9 MARCH

AND TO IMMEDIATE UKREP BRUSSELS

INFO IMMEDIATE BRUSSELS AND BONN

INFO SAVING COPENHAGEN, ROME, DUBLIN, PARIS, LUXEMBOURG AND ATHENS

European Policy

BONN TELEGRAM NUMBER 884 : TINDEMANS' AND THORN'S VISIT TO THE HAGUE

1. THE TWO PRESIDENTS HAD A WORKING LUNCH WITH VAN AGT YESTERDAY FOLLOWED BY AN HOUR'S DISCUSSION WITH OFFICIALS. POSTHUMUS MEYJES TOLD ME THAT THE MEETING HAD NOT BEEN ENCOURAGING AND NO NEW IDEAS HAD BEEN PUT FORWARD. TINDEMANS SAID THAT FOLLOWING THE IMPASSE ON 15 JANUARY, HE HAD WANTED TO RAISE THE DISCUSSION TO A HIGHER LEVEL, BUT HE HAD NOT BEEN ABLE TO THINK OF AN ACCEPTABLE FORMULA FOR THIS PURPOSE. HE HAD THEREFORE CONCLUDED THAT THE ONLY POSSIBLE WAY FORWARD WAS BY TRYING AGAIN TO REACH AGREEMENT ON THE GUIDELINES. THE DUTCH WERE DISAPPOINTED WITH THIS, BUT FELT THAT IT WAS AT ANY RATE SOME IMPROVEMENT ON THE INACTIVITY OF THE LAST FEW WEEKS.

2. THE TWO PRESIDENTS SAID THAT THE GERMANS WANTED TO LIMIT THEIR SHARE OF THE FINANCING OF UK REFUNDS TO 25% OF WHAT IT WOULD OTHERWISE BE. BUT THIS WOULD MAKE THE PROBLEM INSOLUBLE AND THEY HAD TOLD GENSCHER THIS. THE DUTCH AGREED, BUT DID NOT BELIEVE THAT THE GERMAN POSITION WOULD REMAIN SO RIGID.

3. VAN AGT HAD AGAIN MADE CLEAR THAT THE DUTCH COULD NOT ACCEPT ANY SOLUTION THAT WENT OUTSIDE THE NORMAL BUDGET. ALTHOUGH THEY COULD SEE THAT IN CERTAIN CIRCUMSTANCES AN ARRANGEMENT UNDER ARTICLE 200 COULD HELP, THIS WOULD HAVE TO BE APPROVED BY THE DUTCH PARLIAMENT. THIS WOULD CAUSE INSURMOUNTABLE DIFFICULTY. IF THERE HAD TO BE A CHOICE BETWEEN ARTICLE 200 AND POSSIBLE RAISING OF THE 1% VAT CEILING, THEY WOULD PREFER THE LATTER.

4. THERE HAD BEEN SOME DISCUSSION OF THE RUTTEN PROPOSAL. THERE DOES NOT SEEM TO HAVE BEEN ANY FURTHER DEFINITION OF THE POSSIBLE TERMS OF REFERENCE FOR THE REVIEW (MY TELNO 38), BUT POSTHUMUS MEYJES SAID THAT ALTHOUGH THE TWO PRESIDENTS HAD NOT EXPRESSED A DEFINITE VIEW OF THE PROPOSAL, THEY MIGHT BE THINKING OF ADAPTING IT IN SOME WAY TO HELP FIND A SOLUTION.

5. THERE WAS NO, REPEAT NO, MENTION OF THE IDEA OF A LUMP SUM OR OTHER SOLUTION FOR 1982 ALONE. THE DUTCH WOULD BE OPPOSED TO THIS WHICH WOULD SIMPLY POSTPONE THE BASIC ARGUMENTS UNTIL THE AUTUMN.

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/6.

6. THE DUTCH PRESUME THAT THE COMMISSION WILL PRODUCE SOME NEW FORMULATIONS OF THE DISPUTED PASSAGES IN THE GUIDELINES FOR THE FOREIGN AFFAIRS COUNCIL. POSTHUMUS MEYJES WOULD PREFER THESE TO BE CIRCULATED TO COREPER A DAY OR TWO BEFORE THE COUNCIL, BUT THIS POSSIBILITY WAS NOT DISCUSSED.

FCO PLEASE PASS TO SAVING ADDRESSEES.

MANSFIELD

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[PASSED AS REQUESTED]

10 DOWNING STREET

MR. COLES

MEETING TO DISCUSS FIGURES
RELATING TO EC MANDATE

I have arranged this meeting for 1700 hours on Wednesday 10 March in the House of Commons. Messrs. Hancock, Littler and Edwards will be present.

C.S.

8 March 1982

Euro Pol Budget

~~Caption~~ arranged
cl.
Mr. Hancock had better be there.
A.J.C.

MR. COLES

MINISTERIAL MEETING ON EC MANDATE

I have arranged the above for 1445 at No. 10 on Wednesday 17 March. It is important that the Prime Minister gets rid of her guests following the lunch for Sultan Qaboos as soon as possible as Peter Walker will almost certainly have to make a statement in the House at 1530 that afternoon. He is then appearing at a Select Committee at 1630. Sir Robert Armstrong is unable to be present. The Secretary of State for Scotland has not yet confirmed whether or not he can attend.

CP

8 March 1982

Prime Minister

CONFIDENTIAL

Qz.02488

MR COLES

30 MAY MANDATE AND OTHER COMMUNITY NEGOTIATIONS

1. I refer to your minute of 4 March addressed to Sir Robert Armstrong which said that the Prime Minister would like to discuss the note "UK Budget Problem and 1% Ceiling" with officials before the various policy meetings on the Mandate. Such a meeting has now been arranged for 5pm on Wednesday 10 March in the Prime Minister's room at the House of Commons and it will be attended by Mr Littler and Mr Edwards of the Treasury and myself. (Mr Edwards is the Assistant Secretary in charge of the relevant Treasury division and is our expert on these calculations.)

2. I thought it might be helpful for the Prime Minister to glance at the attached rather more technical document before Wednesday's meeting. It is intended to be one of the annexes to the paper to be considered by the Prime Minister's meeting with the Foreign Secretary, the Chancellor, the Minister of Agriculture and the Scottish Secretary at 5.30 pm on Wednesday 17 March. It shows what effects various compensation schemes might have on our net budget contribution and it includes a number of useful tables which bring out clearly the crucial figures at stake.

D.H.

D J S HANCOCK

8 March 1982

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ANNEX C

ARITHMETIC OF COMMISSION SCHEMES

This annex considers what effects compensation schemes of the kind currently under discussion in Brussels might have on our net budget contribution. It also considers what scope there is likely to be for financing UK refunds within the 1 per cent VAT ceiling. The illustrative figures in the tables are based on recent Commission estimates, given to us in confidence (see table 6). Where these estimates are expressed as ranges, we have taken the centre points.

Possible mechanisms

2. Recent discussion has focussed on the two components of the UK's budget problem - the deficiency of UK receipts and (more grudgingly) the excess of UK gross contributions - rather than on our net contribution as such. The criterion envisaged for measuring these two components is the UK share of Community GDP, probably averaged over three years.

3. Corresponding to the two components of the problem there could in principle be two mechanisms for compensating the UK (though several member states are likely to oppose the second one) -

i. an objective indicator (OI) mechanism on the receipts side, which would refund us some percentage of the difference between our actual receipts from the budget and what those receipts would have been if our share of total budget expenditure had been the same as our share of Community GDP averaged over three years, and

ii. a financial mechanism (FM) on the gross contributions side, which would refund us some percentage of the difference between our actual gross contributions and what those gross contributions would have been if our share of total gross contributions to the budget had been the same as our share of Community GDP.

If both mechanisms were in force, with an identical compensation percentage of (say) N per cent in each case and consistent definitions of coverage and entitlement, the effect would be to refund

us N per cent of our uncorrected net contribution. An OI mechanism on its own, on the other hand, with a compensation rate of N per cent, would refund us substantially less than N per cent of our uncorrected net contribution.

Net contribution after refunds (table 1)

4. Table 1 illustrates what our net contribution after refunds might be (or have been) for 1980, 1981 and 1982 with (i) an OI mechanism on the receipts side and (ii) an OI mechanism plus a financial mechanism on the gross contributions side, with consistent definitions of coverage and entitlement.

5. The figures assume that (a) the mechanisms would apply only to that part of the budget which the Commission say they can allocate to individual member states - the so-called 'allocated budget' of the 30 May agreement; (b) the UK GDP share would be calculated in both mechanisms as a moving average of the current and two preceding years; and (c) the gross amounts refunded would be increased (as under the 30 May agreement but not the existing financial mechanism) so as to reimburse us for our contributions to our own refunds and thus produce the correct 'net' amounts.

6. The outcome for the UK would obviously depend critically on the rate of compensation (the N per cent in paragraph 3 above). If both mechanisms were in force, then:

- A 100 per cent rate would reduce our net contribution to that part of the budget covered by the arrangement to zero.

- A 95 per cent rate applied to both mechanisms should keep our net contribution after refunds over the next few years within the figure of 150 million ecus shown in the illustrative table discussed with the Germans in January (line 5).

- A 66 per cent rate applied to both mechanisms (line 6) - the same as the ratio of our refunds to our forecast uncorrected net contribution in the 30 May agreement for

1980 and 1981 - would produce a net contribution after refunds for 1982 similar to that expected in May 1980 for 1981 (some 700-750 million ecus).

If only the OI mechanism on the receipts side were in force, the UK's net contribution after refunds would be substantially greater, for any given rate of compensation - especially in a year such as 1982 when our gross contribution share is expected to be well above our GDP share (see lines 3-4).

7. Our estimated net contribution to the 'unallocated' budget is shown, as a memorandum item, at the bottom of table 1.

Sensitivity to critical parameters (table 2)

8. As implied above, the size of the UK's refunds would depend not only on whether we had an effective financial mechanism and what rates of compensation were agreed, but also on three more technical aspects:

i. the budget total used;

ii. the GDP shares calculation (if there were only one mechanism or if this calculation differed between the two mechanisms): and

iii. the grossing up procedure: whether or not the gross amounts refunded to the UK were increased so as to reimburse us for our own contributions to them.

It would be in the UK's interest that the budget total should be defined as widely as possible and that our refunds should be expressed 'net', payments to the UK being grossed up accordingly. The GDP shares calculation (moving average versus in-year) would be immaterial if there were two mechanisms each using the same calculation. If there were only an OI mechanism, or two mechanisms with our GDP share inconsistently defined between them, different measures of this share would affect the outcome in particular years but there would be no presumption that we would gain or lose over time. Inconsistent definitions would however produce indefensible fluctuations in our refunds. Consistency would therefore be important.

9. Table 2 shows how much we might expect (or have expected) to gain or lose from changes of specification in all the above areas in 1981 and 1982. In other years, the picture could look different. In any year, the amounts at stake are likely to be substantial.

UK refunds and 1 per cent VAT ceiling (table 3)

10. As explained in the main paper, it cannot safely be assumed that there will be enough headroom within the 1 per cent VAT ceiling to accommodate refunds for the UK even in 1983 - much less over the next four or five years. Table 3 illustrates the problem.

11. The 1982 budget estimates imply headroom of some 2.6 billion ecus within the ceiling before allowing for UK refunds (see section 1 of the table). In 1983 and 1984, the amount of headroom will depend on the comparative growth rates of own resources, agricultural expenditure and non-agricultural expenditure. The table illustrates higher and lower CAP expenditure growth cases, 7 percentage points above and 1 percentage point below the growth of own resources, respectively. Also shown is a Commission projection, which lies between the two cases. Except in the high CAP growth case, headroom within the 1 per cent ceiling is projected to remain over 2 billion ecus before UK refunds during these two years.

12. If UK refunds continue to be financed from own resources within the 1 per cent ceiling, the position becomes much tighter. In 1982 the headroom (after allowing for UK refunds for 1981) is currently put at some 1 billion ecus. In 1983, the position would deteriorate sharplyunder the Commission's proposals. For not only are the UK's net refunds for 1982 likely to be larger (at least in the 95 per cent case). But the proposals for lightening the financing burden which the refunds place on Germany and the less prosperous countries will require repayments to these countries as well as the UK, thus increasing the amount of budgetary provision required for any given level of UK refunds. We estimate that if Greece and Ireland were exempted altogether from contributing to our refunds, the Italian financing share were limited to 12½ per cent and the German share to 10 per cent the extra budgetary provision required (and hence the extra headroom used up) would be 2.2 times the net refunds themselves. If the German share were 25 per cent, this factor would fall to 1.7. These factors compare with a factor of 1.3 under the 30 May 1980 arrangements.

13. Sections 2 and 3 of the table illustrate the likely consequences. (A minus sign indicates an excess over the 1 per cent ceiling.) On these figures, there looks to be little or no realistic prospect of accommodating the higher level of UK refunds (the 95 per cent case) within the ceiling in 1983. Even the lower (66 per cent) level of refunds could only be accommodated in the case where (a) the Germans make a large contribution to our refunds and (b) the growth of agricultural expenditure is kept below the growth of own resources.

14. The above problems would disappear if some way can be found of financing the UK refunds outside the 1 per cent VAT ceiling.

Implications for other member states (tables 4 and 5)

15. Under any system for financing our refunds which gives relief to Germany and the less prosperous countries, France and the small rich countries would have to pick up most of the bill. Especially important are the implications for the French, who would have to finance a high percentage of our refunds and (probably) become net contributors on a significant scale.

16. As table 4 illustrates, France's percentage share in financing our refunds would depend critically on how much the Germans contribute. If Germany contributed 10 per cent, France would (on our assumptions) contribute more than 50 per cent. If Germany contributed 25 per cent, the French contribution would fall to some 40-45 per cent.

17. Possible implications for France's net budgetary position after refunds are shown in table 5. The Commission are projecting that France's net budgetary position before refunds will deteriorate by some 500 million ecus between 1981 and 1982. In addition, France's contribution to our net refunds could rise between the two years (on our figures) by between 160 and 660 million ecus depending on the level of our refunds and the German financing

share. On the Commission's latest figures for net positions before UK refunds, the comparison between the British and French net contributions after UK refunds for 1982 would be as follows:

Net contributions (-) for 1982, after UK refunds

(million ecus)

	High UK refunds 95% case	Low UK refunds 66% case
France	-700 to -910	-440 to -590
UK	-110	-730
Germany	-1950 to -2260	-1890 to -2110

5 March 1982

TABLE 1

UK NET CONTRIBUTIONS TO ALLOCATED BUDGET *

	million ecus		
	1980	1981	1982
Present expectations for our net contribution based on the latest Commission figures are:			
1. Before refunds	-1527	-1590	-2153
2. After 30 May agreement			
a. 'intended'	-609	-730	[-730]**
b. now expected	-352	-180	na
Without an effective financial mechanism, our net contribution after refunds would depend on the objective indicator (OI) compensation rate. For example:			
3. 95 per cent rate	-534	-545	-810
4. 66 per cent rate	-837	-864	-1220
If we could negotiate an effective financial mechanism (FM) as well, with the same compensation rate as for the OI mechanism, our net contribution would be (or have been):			
5. 95 per cent rate	-66	-76	-110
6. 66 per cent rate	-512	-538	-730

Memorandum item

The above figures show our net contribution to the allocated budget only (excluding refunds). Our net contribution to the unallocated budget is estimated to be:	-63	-150	-250

Notes

* Both the objective indicator and the financial mechanism are assumed to use a GDP three-year moving average

** 34 per cent of line 1. Other member states, however, would probably argue for an interpretation of the 30 May agreement less favourable to the UK.

TABLE 2

EFFECTS ON UK NET CONTRIBUTION OF CHANGES IN CRITICAL PARAMETERS, 1981 and 1982

(Favourable change compared with table 1, +)	million ecus 1981	1982
Financial mechanism		
1. Effective FM with 95 per cent compensation rate/no FM	+470	+710
Compensation rate		
2. 10 percentage points rise in OI compensation percentage	+110	+140
3. 10 percentage points rise in FM compensation percentage	+ 50	+ 75
Budget definition		
4. OI applied to whole budget, not allocated budget (at 95 per cent)	+170	+210
5. FM applied to whole budget, not allocated budget (at 95 per cent)	+ 20	+ 40
Gross versus net payments		
6. OI refunds calculated gross (at 95 per cent)	-230	-270
7. FM refunds calculated gross (at 95 per cent)	-100	-140
GDP share calculation		
8. FM uses in-year GDP share but OI as in table 1 (at 95 per cent)	-260	- 35

TABLE 3

POSSIBLE HEADROOM (+) WITHIN 1 PER CENT CEILING WITH AND WITHOUT UK REFUNDS

	1981 Actual	1982 Budget estimate	1983 Projection	1984 Projection
	million ecus			
1. Before UK refunds (or UK refunds financed outside 1% VAT ceiling)				
CAP spending grows at:				
18% pa	+3987	+2638	1645	310
10% pa			2810	2960
Commission estimate			2430	2260
2. UK net refund 95% of net contribution in previous year				
a. Germany pays 10%				
CAP spending grows at:				
18% pa	+2593	+ 984	-2750	-4525
10% pa			-1585	-1875
Commission estimate			-1965	-2575
b. Germany pays 25%				
CAP spending grows at:				
18% pa	+2593	+ 984	-1895	-3585
10% pa			- 730	- 935
Commission estimate			-1110	-1635
3. UK net refund 66% of net contribution in previous year				
a. Germany pays 10%				
CAP spending grows at:				
18% pa	+2593	+ 984	-1405	-3045
10% pa			- 240	- 395
Commission estimate			- 620	-1095
b. Germany pays 25%				
CAP spending grows at:				
18% pa	+2593	+ 984	- 815	-2395
10% pa			+ 350	+ 255
Commission estimate			- 30	- 445

Notes on next page.

TABLE 3:

NOTES

1. The projections for 1983 and 1984 (other than those of the Commission) assume that own resources grow by 11 per cent per annum and that non-agricultural expenditure grows by 20 per cent per annum, except for own resources refunds, administration and development which grow by 11 per cent per annum.

2. The UK's uncorrected net contribution is assumed to be -1590 for 1981, -2153 for 1982 and -2368 for 1983.

3. UK net refunds are assumed to rise correspondingly from 1410 for 1981 to 1420 (66 per cent case) or 2045 (95 per cent case) for 1982.

4. Under the existing system the ratio of gross budgetary provision required to UK net refunds is 1.3. Under the new system, the ratio is assumed to be 2.2 in the case where Germany pays 10 per cent and 1.7 in the case where Germany pays 25 per cent.

TABLE 4

PERCENTAGE SHARES IN FINANCING UK NET REFUNDS *

	German share fixed at: 10%	25%
	a.	b.
UK/Ireland/Greece	-	-
Italy	12.5	12.5
Germany	10.0	25.0
France	52.7	42.4
Belgium	8.5	6.9
Luxembourg	0.4	0.3
Netherlands	11.5	9.3
Denmark	4.4	3.6

*See paragraph 12 for assumptions made.

TABLE 5

NET CONTRIBUTIONS (-) AND RECEIPTS (+) BY MEMBER STATE, AFTER UK REFUNDS (Commission basis, Method II)

million ecus

	1980	1981	1982: UK net refund 95% of UK net contribution. Germany pays: 10%	25%	1982: UK net refund 66% of UK net contribution. Germany pays: 10%	25%
			a.	b.	c.	d.
UK	-350	-180	-110	-110	-730	-730
Ireland	630	580	710	710	710	710
Greece	-	130	610	610	610	610
Italy	520	385	730	730	810	810
Germany	-1965	-2120	-1950	-2260	-1890	-2110
France*	80	240	-910	-700	-590	-440
Belgium	195	300	290	320	340	370
Luxembourg	230	285	310	320	320	320
Netherlands	360	105	50	90	120	150
Denmark	300	275	270	290	300	310

*The Commission are projecting that France's net receipts before refunds will fall from 680 for 1981 to 160 for 1982. France's contribution to the UK's net refunds rises from 440 in 1981 to 1080 in 1982 case (a), 870 in case (b), 750 in case (c) and 600 in case (d).

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UK BUDGET PROBLEM:
Some relevant figures

TABLE 6

le 2 - Method II

	Mecus and percentage		
	1980	1981	1982
1. Total budget	14.930	15.943	19.098
2. UK gross contributions to total budget	3.071	3.471	4.484
3. UK gross receipts excl. refunds	1.544	1.881	H.1 2.536
UK net contribution before refunds	1527	1590	H.2 2.126 H.1 1948 H.2 2358
4. UK contributions share of total budget %	20,6 %	21,8 %	23,5 %
5. UK receipts share of total budget %	10,3 %	11,8 %	H.1 13,3 % H.2 11,1 %
6. UK GDP share (in-year) %	(without Greece) 19,0 %	20,4 %	19,8 %
7. UK GDP share (average of current and two preceding years) %	(without Greece) 17,3 %	18,7 %	19,6 %
8. Objective indicator percentage			
a (6 above minus 5 above)	8,7 %	8,6 %	H.1 6,5 % H.2 8,7 %
b (7 above minus 5 above)	7,0 %	6,9 %	H.1 6,3 % H.2 8,5 %
9. "Financial mechanism" percentage			
a (4 above minus 6 above)	1,6 %	1,4 %	3,7 %
b (4 above minus 7 above)	3,3 %	3,1 %	3,9 %
10. Objective indicator gap			
a (8a times 1)	1.299	1.371	H.1 1.241 H.2 1.661
b (8b times 1)	1.045	1.100	H.1 1.203 H.2 1.623
11. "Financial mechanism" gap			
a (9a times 1)	239	223	707
b (9b times 1)	493	494	745

SOURCE: EC Commission, in confidence

3

Ref. A07717

MR COLES

The Mandate

I have told you about the French President's proposal, made to me through Monsieur Attali during last weekend's meeting of Personal Representatives, for "secret and direct talks" between his people and the Prime Minister's people on the whole range of Community problems.

2. Monsieur Attali rang up on 2 March to confirm his President's wish to see these talks go ahead, and to propose a date. The date he proposed was Friday 12 March. Rather than give any indication that there might be reluctance on our side, I accepted that date, subject to final confirmation next week. I think that this timing is in fact about right, given that we need to see what (if anything) is likely to come out of these talks before the meeting of the Council of Ministers on 22 and 23 March.

3. Mr Hancock and I have been considering the instructions to which we might be invited to work in these talks. I attach a first draft of a brief, which sets out the lines which we might follow and the limits within which we might be instructed to work.

4. I am sending copies of this minute and the draft to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer. The draft might be discussed at the meeting proposed for the morning of 11 March, after the meetings of Cabinet and OD.

RTA

ROBERT ARMSTRONG

5th March 1982

SECRET AND PERSONAL

30 MAY MANDATE: BILATERAL TALKS WITH ELYSEE

Draft brief for Sir Robert Armstrong

Objective

1. To establish the basis for an agreement with the French President covering the essential components of a solution to the problems of the 30 May Mandate and CAP prices which France and the United Kingdom would then go on to sell to the Commission and the other Member States.

Coverage

2. The following subjects either ought to be included in any such agreement, or are likely to be necessary to secure the agreement of the French Government:-

(i) The figures for a budget settlement.

(ii) How to finance it.

(iii) Duration and review.

(iv) CAP prices.

(v) Small milk producers.

(vi) Fish.

Figures for budget settlement

3. Mitterrand criticised Giscard for the 30 May Agreement. His political requirement is therefore to be able to present the new settlement as less favourable to

/the

the United Kingdom. HMG, by contrast, needs, as a minimum, to do better than the 30 May Agreement.

4. Because the Commission over-estimated the UK's unadjusted net contribution for 1980 and 1981, the 30 May Agreement did not work out as intended but will in fact be much more favourable to the UK. The effect of the figures quoted in the agreement would have been to allocate 34% of the unadjusted net contribution to the UK, the rest of the Community giving relief for the other 66%. In the event the UK share looks like being very much less than 34%, as shown in the table below.

is implied by Commission figures

mn ecus

Year	Unadjusted Net Contribution	Net Contribution after Adjustment	UK Share
1980	1784	609	34%
1981	2140	730	34%

'hat actually happened (according to latest estimates)

1980	1527	352	23%
1981	1590	180	11%

he average UK share for 1980 and 1981 combined works out at 17%.

5. The UK has already conceded that the new settlement should be based on out-turn figures and not on estimates. In fact this gives security to both sides, not just the French; but Mitterrand could present the change as a victory for France if it helped him.

/6.

6. In the talks with the Elysee we should explore in confidence the possibility of a formula which would be better for the UK than the intention underlying the 30 May figures but worse than how ~~they~~ 1981 actually worked out. Both sides could thus satisfy their political requirements.

7. In 1982 the UK's unadjusted net contribution is thought likely to lie in the region 1700-2350 million ecu. In the years ahead it will probably rise at least in line with inflation and perhaps a bit more, although a shift in the balance of Community expenditure would help. Assuming that it rose at 10% a year, and that the settlement was for 4 years covering 1982-85 inclusive*, then it would reach 2300 million ecu starting from a base of 1700 million ecu in 1982 (ie less than the higher end of the range quoted above for 1982). It would reach 3200 million ecu if the starting figure for 1982 was 2350.

8. The following table shows what our net contribution would be after adjustment if the unadjusted net contribution were shared between the Community and the UK in the proportions at the top of each column. The left hand column is the 95%/5% split which would be necessary to keep the UK's net contribution after

/adjustment

*See para 13 below.

adjustment to about 150 million ecu a year. The right hand column is the intended 30 May split. The table thus defines the area within which s olution needs to be found.

					mn ecus
	95/5	90/10	80/20	75/25	66/34
1700	85	170	340	425	580
2350	120	240	480	590	800
3200	160	320	640	800	1090

9. In discussions Sir R Armstrong should begin by pointing out that a 95%/5% split would be likely to produce a figure for future years of roughly the same size as the one that actually occurred in respect of the 1981 budget. The French side will presumably reject this out of hand. Sir R Armstrong should then suggest that the new solution should be 90%/10%. At the meeting on 12 March Sir R Armstrong should make it clear that his instructions do not permit him to make any concession beyond this, but if necessary he should offer to submit to the Prime Minister any proposal up to and including, but not going beyond, 80%/20%, provided that the French do not ask for either of the following in addition to the UK share:-

(i) degressivity in a sense which goes beyond the automatic result of the percentage sharing formula described in para 8 above.

/(ii)

(ii) Adjustment of the formula to take account of any part of the "900 m ecus overpayment".

If the French propose any solution less favourable to the UK than 80%/20% without either (i) or (ii), then Sir R Armstrong should say that he sees no prospect of agreement and decline to contemplate any change in the UK position on CAP prices or small milk producers.

10. A 80%/20% split would be a better deal for the UK than the figures which HMG accepted on 30 May 1980. Mitterrand could defend it in France by pointing out that it would be less favourable to

/the

the UK than the way the 30 May Agreement actually worked out in practice.

11. It will be important to ensure that there is no misunderstanding with the French about the basis of the figures under discussion. The percentages and figures discussed above all relate to our net contribution, not to the receipts gap identified by the Commission, ie the gap between our GDP and actual shares of receipts from the Community budget. If the French want to follow up the Commission's approach, they should understand that the correction will need to be applied not just to the receipts gap but also to the contributions gap, ie the gap between our actual and our GDP shares of gross contributions to the Community budget. (The two gaps taken together amount to our net contribution.) This would mean that the financial mechanism would have to be amended to remove the constraints which at present prevent it from operating.

Finance within the 1% ceiling

12. The UK should be prepared to explore the possibility of French agreement to the following use of Article 200 which has already been suggested in informal discussions

/in

in Brussels. The refunds to the UK (and corresponding relief for Greece, Ireland, Germany and, if necessary, Italy) should be financed through the own resources system in the normal way up to the point where the 1% ceiling is reached. At that point the Council of Ministers should agree to finance through Article 200 a block of expenditure equivalent in size to the cost of the refunds scheme to the Community budget. All the Member States would subscribe financial contributions under Article 200 in the same proportions as their VAT share of own resources. The justification would be to enable the regular expenditure of the Community to go ahead while the future of the 1% ceiling was examined. It would not therefore be necessary for Member States to seek budgetary authority from their parliaments for a payment explicitly benefitting the UK.

Duration and Review

13. Provided that the French accepted a review and if they made a proposal on figures which we could accept, then Sir R Armstrong could concede a duration of four years. If he is referring back to the Prime Minister on figures, he could also offer to submit to her a proposal for four years, if the French press for this.

/14.

CAP Prices

14. Sir R Armstrong should say that the French must realise that the UK could not be expected to accept any CAP price settlement more costly than what was acceptable to the Germans and the Dutch. But, in return for an acceptable budgetary settlement, he should offer, on the Prime Minister's behalf, an assurance that the UK would in the end agree to an average level of price increases acceptable to the Germans and the Dutch. He should, however, make it clear that we cannot accept the Commission's proposal for reducing our m.c.a. The French government would, of course, have to understand that the UK could not move to that position immediately, but would only make the necessary concessions at the final stage of the negotiation of the price package.

Small milk producers

15. Sir R Armstrong should begin by stressing that the United Kingdom's concern with the milk surplus was sincere. We would hope that the French government would share our desire to contain the costs of milk surpluses

/to

to the Community budget. However, we recognise that the position of small milk producers constitutes a political problem for the French government, and as part of a general settlement, including a satisfactory settlement of the budget issue, we should be prepared to see something done to help small milk producers involving a cost to the Community budget within the ceiling of 120 million ecu a year, as discussed at the meetings of Foreign Ministers in January. But we have genuine problems about the idea of a degressive levy and considered that the form of the Community assistance would need to be negotiated between experts.

Fish

16. We should make it clear to the French that we are not making a link between fish and the solution to the 30 May Mandate issues and the CAP prices package. On the other hand, we should take the opportunity to warn the French President of the danger of allowing the matter to drift on unresolved until the end of the year. We might therefore suggest for his consideration that he and the Prime Minister should instruct their fisheries Ministers as follows:-

/(i)

(i) A solution to the fisheries problem should be found before the end of the year;

(ii) Both sides would need to compromise on the outstanding problems of access and quotas;

(iii) Each side should recognise that the other had an important presentational problem in persuading its industry to accept a negotiable settlement;

(iv) For that reason, both sides should co-operate over the presentation so as to facilitate the task of selling the negotiated settlement to both industries.

Guarantee of good behaviour

17. We understand that French Ministers are very worried at the prospect of being held to ransom by the UK at the price fixing every year over one issue or another. Like their predecessors in 1980, they are trying to think of a way of stopping us doing this.

18. If this anxiety is raised, Sir Robert Armstrong should point out that the UK agreed to the price fixing in 1981 very quickly (as quickly as any other

/Member

Member State) because the 30 May Agreement had disposed of the budget problem for 1981, so that the UK was able to concentrate on the agricultural rather than the financial aspects of the price decisions. If the budget issue could now be put on one side for 5 (or 4) years, the UK would similarly in future years have no overriding national interest to protect in the price negotiations. Even so, there could still be genuine differences of view between the two governments about agricultural policy issues - for example, over the proper balance to be struck between the interests of consumers and tax payers on the one hand and those of producers on the other; and over the effects of the CAP on international trade; but these differences of view between the UK and France would be no different from, and no greater than, those which would or might exist between various other governments - eg between Germany and Italy over Mediterranean products.

19. Sir R Armstrong should not mention fish in this context. If the French were to raise it, Sir R Armstrong should say that we assume that that will have been settled (see para 16) and that therefore the possibility of bad behaviour does not arise.

Euro Pol Budget

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TO IMMEDIATE FCO
TELEGRAM NUMBER 884 OF 5 MARCH 1982
INFO IMMEDIATE BRUSSELS THE HAGUE BONN
INFO SAVING COPENHAGEN ROME DUBLIN PARIS LUXEMBOURG ATHENS

MANDATE: THORN'S VISIT TO BONN

1. WE HAVE OBTAINED SOME INFORMATION ABOUT THORN'S VISIT FROM RAVASIO (THORN'S CABINET) AND FROM REICHENBACH (TUGENDHAT'S CABINET), TO WHOM RAVASIO HAD SPOKEN MORE FRANKLY THAN TO US, AND WHO HAD ALSO HAD SOME DEBRIEFING BY CONTACTS IN BONN.

2. THE GERMANS EXPRESSED THEMSELVES VERY WORRIED ABOUT THE STRENGHT OF THE FRENCH POSITION. THEY THEMSELVES WANTED AN EARLY SOLUTION AND WERE ''QUITE OPEN'' ON THE SUBJECT OF DEGRESSIVITY. IN ORDER TO COPE WITH THE FRENCH POSITION ON THIS, THEY HAVE THOUGHT UP SOME VERY COMPLICATED LANGUAGE. ITS PURPOSE WAS PURELY PRESENTATIONAL. BUT THE GERMANS , HAVING MENTIONED IT, REFUSED TO REVEAL THE TEXT.

3. THE GERMANS CONFIRMED THAT THEY WANT THEIR SHARE OF THE FINANCING OF UK REFUNDS REDUCED TO 25 PERCENT OF WHAT IT WOULD OTHERWISE BE (IE 10 PERCENT OR A BIT LESS). THEY ALSO REMAIN OPPOSED TO AN ARTICLE 200 SOLUTION.

4. IT SEEMS THAT THORN FLOATED THE IDEA THAT REFUNDS FOR THE UK SHOULD BE SUBJECT TO A TRANCHE SYSTEM.

5. RAVASIO TOLD US THAT HE WAS VERY PESSIMISTIC ABOUT RAPID PROGRESS SINCE DEGRESSIVITY HAD COME TO OCCUPY THE CENTRE OF THE STAGE. WE TOLD HIM THAT THE BLAME FOR THIS MUST LIE WITH THE COMMISSION AND HE AGREED THAT THEY HAD PERHAPS REACTED HASITLY WHEN THE FRENCH HAD FIRST MADE REAL PLAY WITH THE CONCEPT. WE HAVE HEARD FROM RIECHENBACH THAT RAVASIO SEES MERIT IN A PACKAGE DEAL WHICH WOULD OFFER A LUMP SUM SOLUTION FOR 1982 AND A BUDGET MECHANISM FROM 1983. HE ARGUES THAT THIS WOULD PERMIT THE TROP PAYE PROBLEM TO BE DEALT WITH IN THE LUMP SUM SETTLEMENT FOR THE FIRST YEAR, AND COULD BE JUSTIFIED BY THE FACT THAT WHATEVER RESTRUCTURING OF THE BUDGET WAS AGREED COULD NOT HAVE BUDGETARY EFFECTS IN 1982. THE NEW SYSTEM WOULD THUS COME INTO FORCE AT ROUGHLY THE SAME TIME AS THE IMPLEMENTATION OF OTHER MANDATE DECISIONS. RIECHENBACH DID NOT KNOW WHETHER THORN WAS INVOLVED IN THIS ELABORATION OF HIS EARLIER SUGGESTION OF A ONE YEAR SOLUTION OR WAS MINDED TO PROMOTE IT DURING HIS TOUR OF CAPITALS OR AT THE NEXT FOREIGN AFFAIRS COUNCIL.

6. WE LEARNT FROM RAVASIO THAT THE TWO PRESIDENTS ARE GOING TO THE HAGUE ON MONDAY. THE REST OF THE PROGRAMME IS STILL VAGUE.

FCO ADVANCE TO:-

FCO - BRIDGES HANNAY SPRECKLEY DE FONBLANQUE
CAB - HANCOCK WENTWORTH
MAFF - ANDREWS
TSY - LITTLER EDWARDS

FCO PASS SAVING TO COPENHAGEN ROME DUBLIN PARIS LUXEMBOURG ATHENS

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SIR ROBERT ARMSTRONG

30 May Mandate and Other
Community Negotiations

The Prime Minister has seen your minute of 26 February on this matter. She would like to discuss the contents of the note you attached with Cabinet Office and Treasury officials. We shall be in touch separately about a date.

The Prime Minister would also like the final version of the paper to be considered by a restricted group of Ministers consisting of the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food, on Wednesday 17 March.

A J COLES

4 March 1982

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2

SIR ROBERT ARMSTRONG

The Mandate

The Prime Minister has seen your minute of 1 March about your conversation with M. Attali last weekend. She accepts your suggestion that a meeting should be held with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer to consider whether to take up President Mitterrand's proposal for "secret and direct talks". We propose to convene this meeting after OD on Thursday, 11 March.

I am sending a copy of this minute to Brian Fall (Foreign and Commonwealth Office).

4 March 1982

COVERING CONFIDENTIAL

p.a.
MR 9/3

Treasury Chambers, Parliament Street, SW1P 3AG

John Coles Esq
Private Secretary
10 Downing Street
LONDON
SW1

3 March 1982

Dear John,

The Financial Secretary has asked me to circulate advance copies of the enclosed White Paper on the 1982 Community Budget to which the Prime Ministers' approval was reported in your letter to me of 25 February. This White Paper is the second in a series of annual White Papers which the Government has agreed to provide in response to a recommendation in the Twenty-Eighth Report from the Public Accounts Committee, 1979-80 Session. Background briefing is available on request from the Treasury Press Office.

I am copying this letter and attachment to the private secretaries to all members of the Cabinet and Sir Robert Armstrong.

Yours sincerely,

David Willetts

D L WILLETTS
Private Secretary

Eco Pol
Sept 14 with esc

PRIME MINISTER

Not in any box. Thought I did (1) [illegible]

E.C. MANDATE

I should be most grateful if you could deal tonight with two papers which are, I think, in your box. Sir Robert Armstrong needs your views because of ~~the~~ a meeting he is having tomorrow.

The two papers are:

1. A minute from Sir Robert Armstrong dated 23 February (ref. AO7667) recording the outcome of his meeting with M. Attali in Paris last weekend.

2. A minute to me from Sir Robert Armstrong dated 3 February (ref. AO7653) on the EC Budget issue.

Sorry to press.

A.J.C.

3 March 1982

Prime Minister

If you agree, we shall arrange a meeting with the Chancellor & Lord Carrington, as suggested in paragraph 7 below.

Ref. A07668

PRIME MINISTER

The Mandate

As you know from my minute of 25th February, in the margins of the meeting of Personal Representatives in Paris last weekend I was to speak to Monsieur Attali, President Mitterrand's Personal Representative, about the Mandate negotiations.

2. In the event the meeting of Personal Representatives took up more of the time available than had been allowed for, and I was able to have only a short talk with Monsieur Attali about the Mandate.

3. I emphasised (as instructed) your commitment to the improvement and strengthening of Anglo-French relations, your desire to see a successful conclusion of the Mandate negotiations, and your consciousness of the crisis that could arise in the Community if there was not a successful outcome. I also emphasised the importance for you of an acceptable outcome to the problem of the British budget contribution.

4. Monsieur Attali said that the President understood your political difficulties; but he had his own. He was on record as having criticised President Giscard for the 1980 settlement; and he had problems with his farmers. But he was extremely anxious to resolve the Community problems without a major and prolonged crisis. It had never been more important to avoid needless damage to European cohesion, in relation both to President Reagan's economic policies but also, and more especially, in relation to East-West relations. He was deeply concerned about the prospects for East-West relations, particularly if (as he feared) the United States Government did not take the arms control negotiations in Geneva seriously enough; that could lead to their breakdown, and to Russia adopting a more hostile posture. The dangers were great, and the European Community could not afford disunity.

5. I asked Monsieur Attali whether we should resume our discussion on an occasion when we had more time; I should be glad to do so if he thought that it would be useful. Monsieur Attali said that the President would like to sort out

the whole range of problems in "secret and direct talks" between his people and yours; it would not be helpful to leave it "to the technicians". The President understood that you wanted to put the budget problem away until after the next Election; that would present him with no difficulty. Monsieur Attali twice said that the President would be prepared to "pay anything" that was needed to do that, though the second time he said that I think he thought he had gone a bit far, because he qualified it by saying that it would have to be less than in 1981. The President would want the talks to be about figures. I said that I knew that the French negotiators had stressed the importance of degressivity, but that presented great difficulties for us, and any idea that an arrangement made now would be final would be quite unacceptable. Monsieur Attali recognised this, and said that there was of course no question of "degressivity to nil". My impression was that we should have no difficulty in getting a four-year arrangement; and the figures available for a four-year arrangement were likely to be more favourable than those for a longer arrangement.

6. I said that I should have to get your instructions on the President's suggestion of "secret and direct talks", but I thought that you would be likely to accept it. If they were to go ahead, who would conduct them on the French side? He said that it would be either himself and his immediate assistant, Monsieur Morel, or Monsieur Pierre Bérégovoy and himself. I said that on our side it was likely to be me and Mr. Hancock. Monsieur Attali said that his people were making some new computations, and he would ring me when the results of those were available, to see if we could arrange a date for talks.

7. You will no doubt wish to discuss with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer whether to take up the President's proposal for "secret and direct talks" of the kind envisaged. If the decision is, as Mr. Hancock and I believe it should be, to do so, we shall need clear instructions as to our negotiating authority.

8. I am sending a copy of this minute to the Foreign and Commonwealth Secretary, but not to the Chancellor of the Exchequer who did not receive a copy of my minute of 25th February about the line to be taken in the talk with Monsieur Attali.

RTA

ROBERT ARMSTRONG

1st March, 1982

Prime minister

(a) Would you like to discuss the attached paper with Cabinet Office and Treasury officials before any ministerial meeting?

Yes

(b) Would you like the final version of the paper to go to OD on Wednesday 17 March, or to a restricted group consisting of Lord Carrington, Sir Geoffrey Howe and Mr Walker?

Restricted group.

CR 13

Ref. A07653

MR COLES

30 May Mandate and Other Community Negotiations

Officials are preparing a note on the current negotiations about the 30 May Mandate, CAP prices and Fish as the basis for a Ministerial meeting to decide how the United Kingdom should handle these negotiations in the weeks ahead, and in particular at the following crucial meetings: the Anglo-German Summit on Friday 19 March, the Foreign Affairs Council on 22-23 March and the European Council on 29-30 March. The present intention is that this paper should be circulated in time for a meeting of Ministers on Wednesday 17 March. The discussion could either be held in OD or, if the Prime Minister preferred, in a more restricted group comprising the three other Ministers essentially concerned namely the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture.

2. The budget problem has a number of complex technical characteristics. We, therefore, thought it might help the Prime Minister to see, before the Ministerial discussion about policy, a note which makes no recommendations but explains what the basic issues are. The attached note accordingly covers the following ground:

(i) How the Commission scheme (objective indicators) might work out in practice.

(ii) The need to combine it with an improved version of the financial mechanism if it is to meet our requirements.

(iii) The gap that appears now to exist between the requirements of Her Majesty's Government and the most that the others seem willing to concede at this stage.

(iv) The problem of financing an adequate solution to the British budget problem within the 1 per cent VAT ceiling and the suggestions that have been made in informal discussions in Brussels for solving this problem.

3. The attached note will be the starting point for the draft of the relevant parts of the paper that officials are preparing for the Ministerial meeting on 17 March. The Prime Minister might find it helpful to discuss the contents of the attached note with Cabinet Office and Treasury officials before the Ministerial meeting. We should also be grateful to know whether the Prime Minister would prefer that meeting to take place in OD or as an ad hoc meeting of the four Ministers essentially concerned.

RWA

ROBERT ARMSTRONG

26 February 1982

UK Budget Problem and 1% Ceiling

1. This Note describes some of the technical background to the current negotiations about the British budget problem and the 1% ceiling.

SIZE OF THE BRITISH PROBLEM

2. The Commission are working on the figures. They will be examining very carefully the assumptions made because the 30 May Agreement estimates turned out to be so badly wrong. The new figures will be circulated to member states before the Foreign Affairs Council on 23 March. However the latest Commission working document we have shows that our net contribution to the allocated budget* for 1982, before refunds, may lie in the range 1950-2350 million ecus (say £1¼ billion). Forecasts for subsequent years are necessarily even more uncertain. We have realistically to assume, however, that this net contribution is likely to rise at least in line with inflation and probably in real terms as well - especially after enlargement.

3. The Commission and most other member states would like if they could to banish the whole concept of 'net contributions'. Consistently with this, the Commission have advocated looking separately at the shortfall in UK receipts and, possibly, the excess in our gross contributions. The criterion which they suggest for measuring these two components of the UK problem is our share of Community GDP, averaged over three years. The prospective split for 1982 is:

/i.

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*The 'allocated budget' was the basis of calculations in the 30 May Agreement. It should be remembered that the UK also contributes substantially - perhaps some £150 million in 1982 - to the unallocated budget (about two-thirds of which goes to overseas aid, including food aid); and that our losses outside the budget on agricultural trade with other Community countries are estimated to have been around £200 - 250 million in most recent years.

i. a 'receipts' side gap of 1250 - 1650 million ecus (say, £825 million), and

ii. a 'gross contributions' side gap of some 750 million ecus (say, £425 million).

In other years, the relative magnitudes of the two gaps could be very different, with a rise in our relative GDP increasing the 'receipts' gap and reducing the 'gross contributions' gap and a fall having the opposite effect.

THE COMMISSION SCHEME AND THE FINANCIAL MECHANISM

4. The Commission's proposal for solving the UK budget problem referred to in the draft guidelines considered by Foreign Ministers at their abortive meeting on 25 January is, as we understand it, that the UK should receive a refund of some agreed percentage of the difference between:

i. the UK's actual share of receipts from the Community budget in the year in question - roughly 11%;

ii. what the UK share would be if it were the same as our share of Community GDP averaged over 3 years (the current year and the 2 preceding years) - roughly 19%.

The difference is the 'receipts' side gap. It is clear that the other member states do not envisage repaying us the whole of this sum, but, even if they did, this method on its own would still leave us to meet the 'gross contributions' gap of some 750 million ecus for 1982 - and there would be risks both ways in later years of changes in the split between the receipts and the gross contributions sides of our net contribution. For that reason, the Commission scheme would need to be combined with a revised and improved version of the financial mechanism if it were to provide the basis for a solution. During the negotiations in January we did manage to insert a reference to the financial mechanism into the draft guidelines, but it is far from sure that the others will accept that it should continue. The new version of the financial mechanism that we have in mind would be stripped of the various limitations that have rendered it inapplicable in recent years. We envisage that, by analogy with the Commission scheme described above, the new financial

/mechanism

mechanism should guarantee us a refund of some percentage of the difference between:

iii. Our share of gross contributions to the Community budget - roughly 23%; and

iv. What our share would be if it were the same as our share of Community GDP - roughly 19%.

Provided that the same definition of the Community budget were used in both cases, the same method of calculating GDP shares and a satisfactory common method of relating gross to net payments, then any given percentage of the gap between i. and ii. above plus the gap between iii. and iv. above would be mathematically equivalent to that same percentage of our unadjusted net contribution.

5. Thus, for example, if the Community agreed to give us a net refund of 90% of both the gaps defined above, then our net contribution for 1982 would be 10% of our unadjusted net contribution, or something in the range of 195-235 million ecu. Such figures would lie somewhat above the highest figures for our net contribution after refunds that Ministers have so far envisaged - ie, around 150 million ecu. We should need to get a refund of 95% in both cases to have a reasonable chance of staying within a figure of 150 million ecu throughout the whole of the 5 year period 1982-1986, to which we intend the agreement to apply.

6. It is unlikely that the other member states envisage a refund of more than two-thirds of our unadjusted net contribution - ie, the same proportion as would have resulted from the 30 May Agreement if the estimates had been borne out. A number of contacts have told us informally that in their view a repetition of the two thirds/one third division between the 'Community' and 'UK' shares of our unadjusted net contribution would be appropriate. We cannot be sure of getting agreement to a solution based on proportions. Some are still arguing for degressive refunds. But to illustrate the point, a two thirds refund would leave us with an adjusted net contribution of some 650-800 million ecus in 1982, a figure which is likely to rise over a five year period.

/7.

7. If we got to the position of committing the other member states to a clear offer of two thirds, we should still have to close the gap between the 650-800 million ecus apparently on offer, and the 150 million ecus that Ministers wish to see.

THE SIGNIFICANCE OF THE 1% CEILING

8. The problem of financing the refunds within the 1% ceiling has recently moved into the centre of the informal discussions in Brussels. It is generally accepted that Ireland and Greece should be let off from making anything larger than a token contribution to the refunds to the UK. The Italians have said they are happy to contribute to UK refunds but not to the relief of the German contribution. Germany has made it a condition of the agreement that her contribution should be relieved. Germany would contribute 35-40% of our refunds if they were financed through the normal operation of the own resources system and the budget. Statements by German Ministers could be interpreted in either of two ways: that Germany should in future pay only 25% of 35-40%, ie 9-10%; or that Germany should pay 25% instead of 35-40%. The difference between these two versions of German demands is substantial.

9. At present because of the operation of the own resources system all ten member states, including the UK, pay extra VAT in order to finance our refunds under the 30 May agreement, and we are reimbursed not only our net refunds but also our share of these extra contributions. If our future refunds are to be financed through own resources in the same way, but some countries are to be excused part of the cost, then they too will need reimbursement of contributions and a still higher rate of VAT contributions will be necessary.

10. The amount of headroom available within the 1% ceiling to finance refunds to the UK through the budget in the normal way depends not only on the extent to which the less prosperous countries and Germany are relieved, but also on the rate of growth of regular expenditure. So far as agricultural expenditure is concerned, it is our firm intention that the rate of growth be held within the rate of growth of own resources. For non-agricultural expenditure (from which we currently get and intend to continue to get a modest net benefit), given the general agreement that the structural funds should be expanded, it would be reasonable to expect a significantly higher rate of growth, say 20%.

/According

According to the latest Commission estimates, there seems little prospect that money would be available even in the 1983 budget to finance refunds sufficient to reduce our net contribution in respect of the 1982 Budget to about 150 million ecu, even on the optimistic assumptions that Italy pays in full and that Germany pays as much as 25%. We certainly cannot rely on enough money being available in 1984 and later years, and we cannot tolerate any agreement in which the eventual payment of refunds due to us might be constrained by shortage of budgetary provision within the 1% ceiling.

11. The agricultural countries are concerned lest the solution to the Budget problem inhibit the financing of agricultural policies; and Italy in particular is also concerned lest it should prevent the development of non-agricultural policies as envisaged in Chapter I of the provisional Mandate conclusions. The Commission shares these concerns and has suggested that the refunds to the UK should be financed, not through the own resources system, but by a special key of financial contributions by the member states decided by unanimous vote of the Council of Ministers acting under the provisions of Article 200 of the Treaty. The legality of this proposal has been disputed: many Community lawyers argue that Article 200 became a dead letter when the own resources decision was taken in 1970 under Article 201 of the Treaty. (The text of Article 200 and 201 is attached as an Annex. It will be noted that Article 201 refers to the replacement of the financial contributions by own resources. Hence the argument that Article 200 has now lapsed). However, the Commission's Legal Adviser has formally given his opinion that Article 200 can still be used and it is possible that other governments will supress their legal doubts if no better way can be found of financing the solution to the problem.

12. The use of Article 200 would provide a very much simpler way of relieving Ireland, Greece and Germany (and, if necessary, Italy) than the orthodox use of the own resources system. The latter would necessitate refunds to those countries as well as to the UK in order to pay them back some or all of the contribution they would make to the cost of the refunds through the operation of own resources. If a special key were agreed under Article 200, the relief to Ireland and the other countries could be made simply by adjusting the financial contribution accordingly.

/13.

13. However, such an application of Article 200 would run up against a major political difficulty. The special financial contributions would have to be approved by the parliaments of the member states under their national budgetary arrangements and several member states have made it clear that they would have very great difficulty in seeking authority from their national parliaments for a special payment to finance a refund for the United Kingdom.

14. As a way round that difficulty, the following more elaborate use of Article 200 has been suggested in informal discussions in Brussels. Under this variant the UK refunds would be financed through own resources in the normal way up to the point where the 1% ceiling was reached. At that point, the Council of Ministers would agree to finance through Article 200 a block of expenditure equivalent in size to the cost of the refund scheme to the Community Budget (including the costs of the refunds to Ireland, Greece, Germany and possibly Italy). All the member states would subscribe financial contributions under Article 200 in the same proportions as their VAT share of own resources and the justification would be to enable the regular expenditure of the Community to go ahead while the future of the 1% ceiling was examined. This proposal is thus intended to disguise the fact that the recourse to Article 200 would be necessitated solely by the need to finance refunds to the UK.

15. Agreement to the use of Article 200 would raise a number of important issues for the UK. On the one hand, we share the legal doubts about the continued availability of the powers in this Article. We would also want to be quite sure that the use of this Article would not be treated as a precedent for normal expenditure because, if it were so used, it would bypass the discipline of the 1% ceiling which it is Government policy to enforce. On the other hand, even if the rate of agricultural expenditure were kept within the rate of growth of own resources, there might well not be enough money within the 1% ceiling to finance refunds to the UK on a sufficient scale for the whole of the 5 year period for which we are pressing. Ministers will therefore need to take a view on whether it would be better to acquiesce in the use of Article 200, suitably confined to the UK Budget problem, than to jeopardise either the 5 year duration of the settlement or our position on the maintenance of the 1% ceiling.

/THE 1%

THE 1% CEILING AFTER ENLARGEMENT

16. The Belgian President of the Council of Foreign Ministers is believed to have it in mind to propose some form of commitment to the renewed progress of the Community as an element in the final agreement on the Mandate. This will be attractive to a number of member states, especially Italy. Even France is committed to relance. Increasingly, the Community is considering the implications of the accession of Spain and Portugal. The date of their accession may be delayed beyond 1984 as at present planned, but it is likely to occur during the period of application of the solution of the Budget problem. (Even a 4 year solution would impose a charge on the 1986 Community budget, for example). It is generally assumed that both Spain and Portugal, because they are both so far below average GDP per head, should be net beneficiaries from the Budget at least to some extent - so that their accession will tend to erode and not to increase the leeway within the 1% ceiling. For that reason, it is quite possible that either the Belgian Presidency or the Commission, or both, will propose a commitment by the member states to consider the future of the own resources system in the context of the further enlargement of the Community.

17. It is possible that some member states at least will insist on a review of the own resources system as a condition of their agreement to the use of Article 200 to finance our refunds on a temporary basis. Even if the Germans maintained their resolve not to raise it, UK Ministers might need to consider at some point whether we could go along with some form of obligation to examine the future of the 1% ceiling, perhaps in the context of enlargement.

18. If we did agree to a review in the course of this year's negotiations, that would not commit us to accepting any change to the 1% ceiling when the review took place. But the negotiations on the future of the ceiling would provide us with a new opportunity to secure changes in the Community's financial arrangements. Possibilities that could be discussed are that a binding ceiling should be imposed on the rate of growth of agricultural expenditure corresponding to the informal political agreement incorporated in the draft Mandate conclusions; the replacement of the Value Added Tax element in own resources by some form of progressive tax; the addition of a tax on imported oil designed to bring about a significant adjustment in the UK's unadjusted net contribution; and a commitment to the principle that

/resources

resources should flow from the rich to the poor member states and not vice versa.

DEGRESSIVITY

19. Tindemans has indicated that he will make a new attempt to secure agreement to a guideline on degressivity at the Foreign Ministers'meeting on 23 March. We do not yet know what he has in mind but he is well aware that the UK will accept no form of words that commits us to an arbitrary reduction in our refunds even if our unadjusted net contribution increases. The Foreign Secretary is seeking to persuade Genscher thatthe Commission's objective indicators plus a revised financial mechanism will automatically provide quite enough degressivity to meet German requirements in the sense that (i) our net contribution after refunds will increase, other things being equal, as the size of the budget increases and (ii) the refunds will be reduced as our other receipts increase from a Budget of any given size.

THE ALLEGED OVERPAYMENT TO THE UK

20. At an earlier stage in the negotiations it was suggested that the Budget solution for 1982 and later years should take account of some or all of the 900 million ecu by which the UK's net contribution after adjustment was fortuitously reduced below the figures of 609 and 730 mentioned in the 30 May decision. Less has been heard of this suggestion recently; but we cannot be sure that it will not revive.

THE TIMING OF PAYMENTS

21. The 30 May Agreement was based on an arbitrary lump sum for refunds, derived from Commission estimates of the UK's unadjusted net contribution. The current proposal is that the adjustment should be based on actual figures established on an ex post basis. A reasonable presumption about timing, which broadly follows what happens now, might be that refunds in respect of the 1982 budget, for example, would be paid by the end of March 1983 (so that we could bring them to account in our financial year 1982-83) as a charge to the 1983 Community budget and on the basis of provisional figures for the actual effect of the 1982 budget on the UK. It would then be necessary to have a final adjustment in the middle of 1984 when complete accounts for 1982 were available, in order to bring the refunds paid exactly into line with the application of the agreed method to the actual 1982 figures.

/SUMMARY

SUMMARY

(1) The Commission's 'objective indicator' scheme would only reduce our net contribution to something of the order of 150 million ecu a year if a very high rate of compensation under it were combined with an improved form of financial mechanism.

(2) Although we were able to insert a reference to the possible need for a financial mechanism into the draft budget guidelines, the other member states and the Commission are not yet committed to either its continuation or its improvement to meet our requirements.

(3) Informal contacts suggest that some member states may be thinking in terms of a refund amounting to two-thirds of our unadjusted net contribution as established after the out-turn figures for each year's budget are known. To hold our net contribution down to a figure of around 150 million ecu a year, we should need a refund of some 95% of our unadjusted net contribution. In money terms, the gap between two-thirds and 95% is about 600 million ecu in respect of 1982; and would be likely to increase over a 5 year period.

(4) It is highly unlikely that the Community will be able to finance refunds on the scale we require within the own resources system as at present defined for the whole of the 5 year period; indeed, there is little prospect that there will be enough money in the 1983 budget to finance even the first year's refunds.

(5) It may therefore be in our interest to go along with an agreement to revive financial contributions under Article 200 of the Treaty.

(6) We may come under pressure to agree, as part of the eventual conclusion of the Mandate negotiations, to review the future of the 1% ceiling in the context of the accession of Portugal and Spain.

(7) Even if we agreed to such a review, we should not, of course, be committed to increasing the ceiling. The review, when it took place, would give us an opportunity to fight for new changes in the Community's financial arrangements. Among the possibilities are a binding ceiling on the growth of agricultural expenditure; a progressive tax to replace the VAT tranche of own resources; a levy on oil imports; and a commitment that resources should flow from the more to the less prosperous member states and not vice versa.

/(8)

(8) Tindemans is believed to intend to make a new attempt to agree a formula on degressivity at the next Foreign Ministers' meeting on 23 March.

(9) Little has been heard recently of an earlier suggestion that the '900 million ecu over-payment' to the UK be taken into account in the new settlement; but it may revive.

Cabinet Office
26 February 1982

ANNEX

Article 200

1. The budget revenue shall include, irrespective of any other revenue, financial contributions of Member States on the following scale:

Netherlands	7.9
Germany	28
France	28
Italy	28
Luxembourg	0.2
Netherlands	7.9

2. The financial contributions of Member States to cover the expenditure of the European Social Fund, however shall be determined on the following scale:

Belgium	8.8
Germany	32
France	32
Italy	20
Luxembourg	0.2
Netherlands	7

3. The scales may be modified by the Council, acting unanimously.

Article 201

The Commission shall examine the conditions under which the financial contributions of Member States provided for in Article 200 could be replaced by the Community's own resources, in particular by revenue accruing from the common customs tariff when it has been finally introduced.

To this end, the Commission shall submit proposals to the Council.

After consulting the Assembly on these proposals the Council may, acting unanimously, lay down the appropriate provisions, which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements.

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10 DOWNING STREET

From the Private Secretary

26 February 1982

Dear John,

THE COMMUNITY: THE GERMAN/ITALIAN PROPOSALS FOR A "EUROPEAN ACT"

The Prime Minister has seen the minute (undated) from the Foreign and Commonwealth Secretary on this subject and is content with the approach described therein.

I am sending copies of this letter to the Private Secretaries to the members of OD, the Secretaries of State for Education and Science and Industry, and Sir Robert Armstrong.

Yours ever

John Coles.

John Holmes, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

THE MANDATE

The Prime Minister has seen your minute of 25 February about the line you propose to take with M. Attali this weekend. She is content with the general approach which you describe. She has merely commented, with regard to paragraph 3(ii) of your minute, that she is not satisfied that any help given to small milk producers as part of an overall settlement should come from the Common Agriculture Policy. For the time being she would prefer you to stick to some such formula as - we are prepared to envisage measures to help France with regard to the problem of small milk producers.

A. J. COLES

26 February 1982

Prime Minister
Content that Sir Robert Armstrong should speak to the French on these lines?
A.J.C. 25/2

Ref. A07629

MT

PRIME MINISTER

As you know, I am to attend this weekend a meeting of the Personal Representatives of the Heads of State and Government attending the Economic Summit in Versailles in June. President Mitterrand's Personal Representative, Monsieur Attali, will be acting as Chairman. The purpose of the meeting is to carry forward the preparations for the Versailles Summit, but Monsieur Attali has proposed that he and I should have a word about the Mandate negotiations in the margins of the Economic Summit talks.

2. My objective in these discussions will be to convince Monsieur Attali of the merits of our case, to expose the unreasonableness of the French position and to leave him in no doubt that the French Government can expect no satisfaction on farm prices in general, and the treatment of small milk producers in particular, until they have met Her Majesty's Government's requirements on the budget problem.

3. I would propose, if you agree, to stress the following points in particular:

(i) You remain firmly committed to the objective that you and President Mitterrand set yourselves last September, namely improved and strengthened Anglo-French relations.

(ii) The British Government understands that agriculture is of very great importance to the French Government and that the French Government has a particular requirement that the Common Agriculture Policy should give specific support to small milk producers. The Foreign and Commonwealth Secretary has already made it plain that, in the context of an overall settlement on the Mandate, the United Kingdom would be prepared to see something done helpful to France. But there can be no question of our agreeing to concessions to small milk producers before the budget problem is solved.

(iii) France must also bear in mind that CAP expenditure is the root cause of the British budget problem. Decisions on agricultural prices taken in 1982 will be a crucial determinant of the level of the United Kingdom's unadjusted net contribution in the years ahead. The discussions on the budget problem and the decisions on farm prices are, therefore, integrally linked. In the negotiations about Chapter II of the Mandate, Heads of Government and Foreign Ministers considered the future treatment of Mediterranean products; the regime for cereals; the modulation of guarantees; the treatment of milk surpluses; what should be done to mitigate the effect of policies to contain milk surpluses on small milk producers; and a ceiling on the rate of growth of agricultural expenditure. The negotiations about these questions are now being continued in the context of the review of agricultural prices. But this is no reason for abandoning the agreement that progress must be made in parallel on non-agricultural policies, agricultural policies and the budget problem. For that reason, the British Government will need a fair and durable solution to the British budget problem in order to be able to defend at home a farm price settlement acceptable to France.

(iv) A successful conclusion to the negotiations on the Mandate, the price fixing and the budget is also a necessary condition for the successful evolution of Community policies as a whole in the coming months. Unless these critical problems can be solved, the Community faces a major crisis which will endanger the ability of the Community to measure up to world problems. It is in any event essential, and in both our interests, that these internal questions be sorted out before the Versailles Economic Summit.

(v) Neither we nor the French, we imagine, wish to see these negotiations develop, as they did in 1980, into a much-publicised dispute. But the issues at stake cannot be put on one side. Each Government must take account of the essential requirements of the other. For that reason you suggest that there should continue to be close and informal contacts between your representatives and those of President Mitterrand in the period between now and the March European Council.

4. The Foreign and Commonwealth Secretary is content that, if you agree, I should speak to Monsieur Attali as proposed above.

5. I am sending a copy of this minute to the Foreign and Commonwealth Secretary.

RTA

ROBERT ARMSTRONG

25 February 1982

FILE SW.

25 February, 1982

White Paper on 1982 Community Budget

Thank you for your letter of 23 February. As I told you on the telephone this morning, the Prime Minister is content with the White Paper as drafted.

A. J. COLES

D. L. Willetts, Esq.,
H.M. Treasury

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INFO SAVING BRUSSELS

MANDATE

1. THERE WAS A SHORT DISCUSSION, IN A MUCH MORE CONSTRUCTIVE ATMOSPHERE THAN LAST WEEK, AT COREPER LUNCH TODAY.

2. ERSBOLL AND NOTERDAEME SUMMED UP THE CONCLUSIONS OF THE MINISTERIAL LUNCH ON TUESDAY. TINDEMANS WILL START HIS BILATERAL CONSULTATIONS ON 8 MARCH. HE WILL HAVE CONTACTS AT THE APPROPRIATE POLITICAL LEVEL WITH ALL MEMBER STATES, PROBABLY IN MOST CASES IN CAPITALS. HIS AIM WILL BE TO PUT QUESTIONS AND ELICIT THE MARGIN FOR MANOEUVRE OF MEMBER GOVERNMENTS. HE WILL ALSO EXAMINE THE POSSIBILITIES OF SOLUTIONS, INCLUDING THE SCALE OF THE PROBLEM, AND DO SOME WORK OF PERSUASION TOWARDS AN AGREEMENT. HE WILL REPORT TO THE COUNCIL ON 23 MARCH WHERE HE WILL AIM TO GET REAL PROGRESS AND A SOLID BASIS FOR THE REMAINING WORK. THE PRESIDENCY WOULD LIKE TO AVOID PUTTING THE MATTER TO THE EUROPEAN COUNCIL IN MARCH. THEY HAD NOTED THAT ALL MINISTERS WANTED PROGRESS ON 23 MARCH. TINDEMANS HAD SAID THAT GOVERNMENTS MUST NOT TRY TO UNDO WHAT HAD ALREADY BEEN DONE. HE WOULD START HIS CONSULTATIONS FROM WHERE WE HAD GOT TO ON 25 JANUARY. THERE WAS NO MENTION OF THORN'S ROLE.

?

3. THERE WAS DISCUSSION OF WHETHER IT WAS REALISTIC TO THINK THAT DISCUSSION AT THE EUROPEAN COUNCIL COULD BE AVOIDED, IN WHICH I GOT SOME SUPPORT FOR THE VIEW THAT IT COULD NOT. NOTERDAEME SUMMED UP THAT THE PRESIDENCY WOULD AIM FOR TINDEMANS TO BE ABLE TO REPORT SUFFICIENT PROGRESS TO THE EUROPEAN COUNCIL SO THAT IT WOULD REGARD IT AS ENCOURAGING AND INSTRUCT FOREIGN MINISTERS TO GET ON WITH

/ IT. BUT IT

IT. BUT IT WOULD NOT BE REALISTIC TO THINK THAT THE EUROPEAN COUNCIL WOULD NOT HAVE A DISCUSSION OF SUBSTANCE IF THERE WAS A FAILURE ON 23 MARCH. EVEN IN THAT CASE HOWEVER THE PRESIDENCY WOULD NOT THINK IT REALISTIC TO TRY TO GET THE EUROPEAN COUNCIL TO SETTLE THE TECHNICAL ISSUES.

4. JENKINS CONFIRMED THAT THE COMMISSION WILL HAVE BEFORE IT ON 3 MARCH THE FIGURES WHICH THORN PROMISED AT COREPER LUNCH LAST WEEK. THE VIEWS OF OTHER COMMISSIONERS WILL DETERMINE WHAT FIGURES ARE GIVEN TO MEMBER GOVERNMENTS. IT WAS CONFIRMED THAT WHEN MINISTERS TALKED OF ILLUSTRATIVE FIGURES ON 23 FEBRUARY, THEY WERE TALKING ABOUT THE DATA BASE AND NOT ABOUT THE FIGURES FOR THE FINAL SOLUTION. IT WAS AGREED THAT THE COMMISSION WOULD GIVE THE FIGURES QUIETLY TO MEMBER GOVERNMENTS, PERHAPS AT COREPER LUNCH NEXT WEEK.

FCO ADVANCE TO:-
FCO - BRIDGES, HANNAY, DE FONBLANQUE (ECD(I))
CAB - HANCOCK, ELLIOTT, WENTWORTH
MAFF - ANDREWS
TSY - LITTLER, EDWARDS

BUTLER

[ADVANCED AS REQUESTED]
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FRAME ECONOMIC

ECD(I)
PS
PS/PUS

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Prime Minister

~~To note~~

Content with this approach?

A.J.C. 25/2

Yes pm

PM/82/14

PRIME MINISTER

The Community: The German/Italian Proposals for a "European Act"

1. You will recall that the European Council on 26/27 November 1981 decided to refer the Genscher/Colombo proposals for a draft "Act" (we are looking for a better word) on European Union to the Foreign Ministers for examination and clarification with a view to their reporting back to a future meeting of the European Council.

2. The Belgian Presidency set up an ad hoc group of personal representatives to carry out this examination. The British representative is Mr Bullard from the FCO, who has operated on the basis of an interdepartmentally agreed brief. The group has held three meetings so far and prepared a first interim report which the Foreign Ministers discussed at their meeting on 23 February. The Foreign Ministers agreed that the political will to continue the exercise existed and that the ad hoc group should work on a revised draft for consideration by Foreign Ministers at their meeting on 24 May.

3. We have succeeded in securing acceptance of our basic requirements that there should be no changes in the existing powers of the institutions, as laid down in the Treaties, and no provisions requiring Treaty amendment or Parliamentary ratification. In discussions in the group we have succeeded also in conveying a constructive impression, while resisting some proposals likely to cause us difficulty and seeking clarification of others. For the most part, we have been able to allow others to take the lead in being negative. We have also put forward some

/suggestions of

suggestions of our own; that there should be a reference to the Declaration on Democracy, adopted by the European Council on 7/8 April 1978, in order to strengthen the link between Community membership and Parliamentary democracy; that the European Council should meet only twice a year (though we have so far received no support for this); and that the Economic and Social Committee should concentrate its work more closely on the tasks assigned to it by the Treaties.

4. As they stand, the proposals amount to very little in substance, and in many cases simply reaffirm existing arrangements and commitments. It is clear, however, that Genscher and Colombo attach considerable importance to them and see them as a means of moving the Commuhity out of its present state of stagnation. These two Foreign Ministers are among those most likely to be helpful to us in the Mandate negotiations, and for this reason I think it important that we should continue to appear willing to examine the proposals constructively, while naturally resisting any detailed suggestions which we do not like.

5. There would obviously be little point in adopting something along the lines of the draft before the Mandate negotiations had been concluded and I think this is generally accepted by the other Member States. Once the Mandate is out of the way, however, there might be value in putting our name to whatever emerges from the German/Italian proposals. Without committing us to anything of substance, this would provide some evidence that Community membership is about more than budget contributions and CAP prices, as well as reassuring our partners of our commitment to the further development of the Community.

6. I am copying this minute to members of OD, the Secretaries of State for Education and Industry and Sir Robert Armstrong.

(CARRINGTON)

Ref. A07621

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer, who chaired the weekend meeting of Community Finance Ministers and Central Bank Governors, could report on the lengthy discussions that led to agreement on the devaluation of the Belgian franc by 8½ per cent and the Danish krone by 3 per cent vis-a-vis the other currencies participating in the European Monetary System.

2. In the absence of the Foreign and Commonwealth Secretary, the Lord Privy Seal might report on the outcome of the 23-24 February Foreign Affairs Council. Over lunch Monsieur Tindemans said that he and Monsieur Thorn would have bilateral contacts on the mandate before the March Council, and that the Commission would produce the illustrative figures we have been pressing for. It was agreed that the second day of the 22-23 March Council would be devoted to the mandate. On Poland, the Council asked the Commission to make proposals for reducing imports of manufactured goods and luxury products from the Soviet Union; the Greeks opposed and the Danes reserved their position on the intended legal basis for these measures. As to Japan, the Council concluded that the recent Japanese measures did not go far enough, commissioned further studies of the scope for common action, and agreed to substantive discussion at its March meeting. Long standing problems affecting the financing of steel social measures and energy demonstration projects were resolved, subject to a German reserve on the former. The Council also considered an interim report on the German-Italian proposals for a European Act. There was general agreement that a political declaration of this kind would have a positive effect on public opinion only if accompanied by progress on the mandate.

3. The special textiles Council meets on 25 February.

RTA

ROBERT ARMSTRONG

24 February 1982

COVERING CONFIDENTIAL

AJC

CBP

MAP

Treasury Chambers, Parliament Street, SW1P 3AG

Prime Minister

Content with White Paper as drafted?

A.J.C. 24/2

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Yes

23 February 1982

Dear Michael,

... I attach a draft for a White Paper on the 1982 Community budget which, if you and other recipients of this letter agree, we should like to present on Wednesday 3 March at 3.30pm, in the name of the Financial Secretary to the Treasury, followed by publication on Thursday morning, 4 March. The White Paper will be the second in the series of annual White Papers which the Government has agreed to provide in response to a recommendation in the Twenty Eighth Report from the Public Accounts Committee, 1979-80 Session.

The estimate of £622 million in this White Paper for the UK's net contribution to the 1982 budget comprises the difference between our contributions and receipts (including refunds) as provided for in the 1982 budget. Since we receive our refunds in arrears (or mainly in arrears), the £622 million figure takes account of the bulk of our refunds in respect of 1981 but does not take account of our refunds in respect of 1982 itself. The figure is thus on a different basis from the familiar Commission figures for net contributions to the allocated budget, which exclude overseas aid and certain other items and offset the refunds for a particular year against the net contribution for that year, even when the refunds are paid mainly (or wholly) in arrears. The £622 million figure is also on a different basis from the Public Expenditure White Paper figures (see letter of today from the Chancellor's Private Secretary), which reflect payments made and receipts received during UK financial years on a cash flow basis. The Public Expenditure White Paper figure for our net contribution in 1982-83 and the figure in the attached White Paper for our net contribution to the 1982 budget will however be very similar.

As noted in the letter from the Chancellor's Private Secretary, the figures for 1982-83 and the 1982 budget will show that the Government expect our net contribution to bounce back again from the low figure for 1981: the recent Commission figures pointing to a net contribution of some £55 million in respect of the allocated budget for 1981 have received a considerable amount of publicity. The new figures for 1982-83 are very close, however, to those published in last year's Public Expenditure White Paper. What has happened is that our net contribution before refunds turned out much lower than expected in 1981, for the special reasons explained in the letter from the Chancellor's Private Secretary. But neither the Commission nor we ourselves are predicting that this welcome outcome will be repeated in the current year. We shall be providing full briefing on all this for use by press offices.

In order to keep to the printing timetable, we should be grateful to have replies, by telephone if convenient, by close on Wednesday, please. !

I am copying this letter to Murdo Maclean (Chief Whip's Office), David Heyhoe (Privy Council Office), Stephen Gomersall (Lord Privy Seal's Office) and David Wright (Sir Robert Armstrong's Office).

Yours sincerely,

David Willetts

D L WILLETTS
Private Secretary

PROOF: IN CONFIDENCE UNTIL PUBLISHED

Statement on the 1982 Community Budget

Presented to Parliament by the Financial Secretary to the Treasury
by Command of Her Majesty
March 1982

LONDON
HER MAJESTY'S STATIONERY OFFICE
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Cmnd.

THE 1982 BUDGET OF THE EUROPEAN COMMUNITIES

INTRODUCTION

1. Following the recommendation of the Twenth-Eighth Report (1979-80 session) from the Committee of Public Accounts the Government agreed to present a statement giving details of the European Community budget after its adoption. Cmnd 8187 contained information on the 1981 budget. This White Paper presents in similar form information on the 1982 budget as adopted. The UK, and other Member States contest the validity of the budget in the form in which it was adopted by the European Parliament. A statement on the Government's position with regard to payment of the full contribution to the budget was made in the House of Commons on 3 February 1982 and is attached at Annex A. The amount in dispute is 224 million ecus (£117 million approximately).

Commitment and payment appropriations

2. Table I shows commitment and payment appropriations for each of the Community Institutions in the budget including the main headings of expenditure for the Commission Section of the budget. Payment appropriations are estimates of actual expenditure; commitment appropriations are amounts of expenditure authorised, payment of which may extend beyond the budget year. In accordance with the convention used in preparing the 1982 budget estimates, the sterling figures in the tables have been converted from ecus at the exchange rate obtaining on 1 February 1981 of £1 = 1·9118 ecus.

3. Total payment appropriations in the 1982 budget are 21,984·4 million ecus (£11,498·8 million). Of this 13,671·3 million ecus (£7,150·7 million) is in respect of expenditure on the Common Agricultural Policy (CAP), which thus represents 62·2 per cent. of total budget provision. The budget total for 1982 compares with a total of 18,434 million eucs (£10,182 million)* in the 1981 final budget. Of this, 12,132 million ecus (£6,695 million)* was in respect of CAP expenditure, which thus represented 65·8 per cent. of the total provision.

Gross and net contributions by the UK

4. Table II shows estimated UK contributions to, and receipts from, the budget, and the resulting net contribution figure. The figures for agricultural levies, customs duties and VAT own resource contributions are the estimates appearing in the 1982 Community budget as adopted by the European Parliament. The budget provides figures for certain UK receipts —the own resource refund, and refunds through supplementary measures as provided for in the 30 May 1980 agreement—but it does not identify separately payments to the UK or other individual Member States from the Community's main funds—the EAGGF Guarantee and Guidance Sections, the Social Fund and the Regional Development Fund. The figure in Table II for these receipts is a UK Government estimate.

*Converted at the average exchange rate of 1981 £1 = 1·8105 ecus.

5. In accordance with the 30 May 1980 agreement, the provision of 1654 million ecus in the 1982 budget for UK supplementary measures reflects the bulk of our gross entitilement to refunds in respect of the Community's 1981 budget. The amount of refunds which we receive in respect of the 1982 budget will depend on the outcome of the negotiations now taking place on a longer term solution to the budget problem.

GROSS AND NET CONTRIBUTIONS BY OTHER MEMBER STATES

6. Table III shows estimates of the own resources contributions by Member States required to finance the budget. In addition to these contributions, some 165 million ecus of miscellaneous revenue is available for financing the budget. Under the transitional arrangements made with Greece on entry to the Community, Greece makes financial contributions based on her share of Community gross national product instead of a VAT contribution.

7. As explained above, the budget does not include complete details of payments to individual Member States. It is not possible, therefore, to derive estimates of net contributions and receipts by individual Member States from the budget figures on their own. The Government have ased the Commission to provide such estimates for the 1982 budget. The Commission have published corresponding estimates for the 1980 and 1981 budgets, which were provided to the House on 17 November 1981 (see Annex B).

TABLE I

COMMITMENT AND PAYMENT APPROPRIATIONS IN THE 1982 COMMUNITY BUDGET BY INSTITUTION AND TYPE OF EXPENDITURE

	Commitment appropriations		*Payment appropriations*	
	million ecus	*£ million**	*million ecus*	*£ million**
COMMISSION				
Administration	727·2	380·4	727·2	380·4
Research and investment ...	376·4	196·9	344·8	180·3
Industry, transport, energy...	133·4	69·8	78·7	41·2
Own resources refund ...	962·4	503·4	962·4	503·4
Financial mechanism ...	—	—	—	—
Transitional refunds to Greece	98·8	51·7	98·8	51·7
Social fund	1242·8	650·1	911·3	476·7
Regional development fund	1759·5	920·3	1075·0	562·3
EMS interest rate subsidies	259·7	135·8	259·7	135·8
UK supplementary measures	1654·2	865·3	1654·2	865·3
EAGGF guarantee	13671·3	7151·0	13671·3	7151·0
EAGGF guidance	821·7	429·8	780·8	408·4
EAGGF fisheries	49·6	25·9	65·9	34·5
Development aid	959·4	501·8	818·3	428·0
Miscellaneous	164·2	85·9	156·5	81·9
Reserves	5·0	2·6	5·0	2·6
Total Commission	22885·6	11970·7	21609·9	11303·5
OTHER INSTITUTIONS				
Parliament	209·2	109·4	209·2	109·4
Council	120·9	63·2	120·9	63·2
Court of Justice	28·0	14·6	28·0	14·6
Court of Auditors	16·3	8·5	16·3	8·5
Total Other Institutions ...	374·4	195·7	374·4	195·7
TOTAL BUDGET	23260·1	12166·4	21984·3	11499·2

* The exchange rate used is £1=1·9118 (see paragraph 2).

TABLE II

UNITED KINGDOM CONTRIBUTIONS TO AND RECEIPTS FROM THE 1982 COMMUNITY BUDGET

	million ecus	*£ million**
GROSS CONTRIBUTION		
Agricultural levies	617·0	322·7
Customs duties	1800·0	941·5
VAT own resources	2681·9	1402·8
TOTAL	5098·9	2667·0
RECEIPTS		
Own resources refund	241·7	126·4
EMS interest rate subsidies	57·6	30·1
Financial mechanism	—	—
UK supplementary measures ≠	1654·2	865·2
UK estimate of remaining receipts:		
EAGGF, Social Fund, Regional Fund and miscellaneous receipts	1956·0	1023·1
TOTAL	3909·5	2044·8
NET CONTRIBUTION ≠	1189·4	622·2

* The exchange rate used is £1 = 1.9118 ecus (see paragraph 2).

≠ As explained in paragraph 5, refunds to the UK in respect of our net contribution to the 1982 budget are the subject of negotiations now taking place with other Member States. The supplementary measures refunds provided for in the 1982 budget itself relate to our net contribution for 1981.

TABLE III

GROSS CONTRIBUTIONS BY MEMBER STATES TO THE 1982 COMMUNITY BUDGET

	Agricultural levies	*Customs duties*	*VAT Financial Contribution*	*Total*	*Agricultural levies*	*Customs duties*	*VAT Financial Contribution*	*Total*
	million ecus				*£ million (converted at £1 = 1·9118 ecus)*			
Belgium	246·0	415·0	471·6	1132·6	128·7	217·1	246·7	592·5
Denmark	35·0	140·0	245·1	420·1	18·3	73·2	128·2	219·7
Germany	455·0	1890·0	3338·5	5683·5	238·0	988·6	1746·3	2972·9
Greece*	87·0	110·0	197·5	394·5	45·5	57·5	103·3	206·3
France	398·0	1150·0	2913·1	4461·1	208·2	601·5	1523·7	2333·4
Ireland	15·0	90·0	92·5	197·5	7·8	47·1	48·4	103·3
Italy	530·0	725·0	1595·3	2850·3	277·2	379·2	834·4	1490·8
Luxembourg	0·1	4·0	22·2	26·3	0·1	2·1	11·6	13·8
Netherlands	302·0	615·0	638·1	1555·1	158·0	321·7	333·8	813·5
United Kingdom ...	617·0	1800·0	2681·9	5098·9	322·7	941·5	1402·8	2667·0
TOTAL	2685·1	6939·0	12195·8	21819·9	1404·5	3629·5	6379·2	11413·2

*Greece pays a provisional contribution based on GNP share in lieu of VAT.

ANNEX A

STATEMENT MADE BY THE LORD PRIVY SEAL IN THE HOUSE OF COMMONS ON 3 FEBRUARY 1982

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 discussion 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.

ANNEX B

STATEMENT MADE BY THE FINANCIAL SECRETARY TO THE TREASURY ON 17 NOVEMBER 1981

Sir Anthony Meyer asked the Chancellor of the Exchequer whether the European Commission has made available to Her Majesty's Government estimates of the net contributions of each member State in 1978, 1979, 1980 and 1981; and if he will publish these in the *Official Report*.

Mr. Ridley: The Commission has made available the following estimates of net contributions (−) and receipts in respect of the Community budgets for 1980 and 1981:

million ecus

	1980	*1981*
Germany	−1540	−1647
France	423	624
Netherlands	441	223
Belgium	255	388
Denmark	331	302
Luxembourg	232	282
United Kingdom	−1521	−1505
Italy	735	619
Ireland	644	591
Greece	na	123

These estimates—which the Government are studying—are intended to be on the basis used in the agreement of 30 May 1980 on United Kingdom budget refunds. The figures do not take account of the agreement itself, which gave the United Kingdom net refunds of 1,175 million ecus in respect of 1980 and 1,420 million ecus in respect of 1981. The Commission has not, to our knowledge provided comparable estimates for 1978 and 1979.

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THE DRAFT EUROPEAN ACT

SUMMARY

1. FOREIGN MINISTERS DISCUSSED ON 23 FEBRUARY (IN A SPECIAL SESSION NEITHER COMMUNITY, NOR POLITICAL COOPERATION) THE INTERIM REPORT FROM THE AD HOC GROUP ON THE GENSCHER/COLOMBO PROPOSALS. THOUGH THERE WAS GENERAL AGREEMENT THAT SUCH A POLITICAL DECLARATION WOULD HAVE A POSITIVE EFFECT ON PUBLIC OPINION ONLY IF IT WERE ACCOMPANIED BY PROGRESS ON PRACTICAL COMMUNITY POLICIES, NOTABLY THE MANDATE, THE ATMOSPHERE WAS CONSTRUCTIVE. MOST MEMBER STATES, EVEN DENMARK AND IRELAND WHICH HAD RAISED DIFFICULTIES AT OFFICIAL LEVEL, SAID THEY WERE READY TO WORK FURTHER ON THE DRAFT. CHEYSSON (FRANCE) WAS ALSO MUCH MORE FORTHCOMING THAN HIS REPRESENTATIVE IN THE COMMITTEE, THOUGH HE WANTED THE ACT TO REFLECT IDEAS IN THE FRENCH ''RELANCE'' DOCUMENT.

2. I GAVE SUPPORT TO GENSCHER'S AND COLOMBO'S VIEW THAT ACTION WAS NEEDED TO STRENGTHEN THE UNITY OF THE COMMUNITY, ESPECIALLY IN FACE OF THE DANGERS OF THE WORLD SITUATION. THERE SHOULD BE A REFERENCE TO THIS IN THE PREAMBLE. BRITAIN WOULD WORK POSITIVELY AND ACTIVELY ON THE DRAFT. IN A SENSE THIS WORK COULD PROCEED SIDE BY SIDE WITH THAT ON COMMUNITY POLICIES, ESPECIALLY ON THE MANDATE. I FLOATED THE IDEA THAT THE FINAL DOCUMENT MIGHT BE CALLED SOMETHING OTHER THAN AN ''ACT''.

3. THE AD HOC COMMITTEE WILL RESUME WORK TO PRODUCE A REVISED DRAFT ACT FOR MINISTERS PROBABLY ON 24 MAY.

DETAIL

4. GENSCHER (FRG) URGED FOREIGN MINISTERS TO GIVE THE GROUP A MANDATE TO IMPROVE THE PRESENT DRAFT, NOT WATER IT DOWN. THE INSTITUTIONAL PROBLEM WAS SERIOUS. THERE WOULD HAVE TO BE IMPROVEMENTS ESPECAILLY MORE MAJORITY VOTING, IF THE COMMUNITY WAS TO WORK EFFICIENTLY AFTER ENLARGEMENT. THERE HAD TO BE REALISTIC MEASURES FOR GREATER PARTICIPATION BY THE EUROPEAN PARLIAMENT. ON SECURITY, WHAT WAS PROPOSED WAS MORE COOPERATION ON THE POLITICAL ASPECTS OF SECURITY, NOT MILITARY COOPERATION.

/ 5. AFTER

5. AFTER MY INTERVENTION (PARAGRAPH 2 ABOVE), VAN DER STOEL (NETHERLANDS) PROMISED CONSTRUCTIVE WORK ON THE DRAFT, SUBJECT TO THE EXCLUSION OF MILITARY COOPERATION. WE SHOULD JUMP IN AT THE DEEP END WITH A COMMITMENT TO MAJORITY VOTING. A RE-EXAMINATION OF THE EUROPEAN PARLIAMENT'S POWERS WAS REQUIRED. COLLETTE FLESCH (LUXEMBOURG) AGREED ON MAJORITY VOTING AND THE PARLIAMENT. SHE TOOK ISSUE MILDLY WITH MY COMMENT ABOUT THE MANDATE WHICH SHE HOPED WOULD BE SETTLED VERY QUICKLY. SHE DID NOT SEE WHAT WAS WRONG WITH THE WORD ''ACT'' IN ENGLISH. IT HAD BEEN FOR THE HELSINKI DOCUMENT.

6. COLOMBO (ITALY) STRESSED THAT THERE WAS NO INTENTION IN THE ITALO-GERMAN PROPOSALS OF DIVERTING ATTENTION FROM THE ECONOMIC POLICIES OF THE COMMUNITY. INDEED HE WANTED A LEAP FORWARD TOWARDS A EUROPEAN MONETARY SYSTEM AND THE ACT SHOULD MENTION THIS. IT SHOULD ALSO TAKE ACCOUNT OF THE FRENCH RELANCE DOCUMENT. IT SHOULD PROVIDE FOR BETTER COORDINATION BETWEEN THE COMMUNITY AND POLITICAL COOPERATION. HE SUPPORTED PREVIOUS COMMENTS ABOUT MAJORITY VOTING AND THE EUROPEAN PARLIAMENT'S ROLE. THE PARLIAMENT COULD NOT GO INTO THE 1984 ELECTIONS ON THE PRESENT BASIS. HE SUPPORTED GENSCHER'S REMARKS ON SECURITY.

7. CHEYSSON (FRANCE) CONSIDERED THAT EVENTS OF THE PAST YEAR AND THE PSYCHOLOGICAL CRISIS IN THE COMMUNITY HAD STRENGTHENED THE IMPORTANCE OF THE DOCUMENT. THE ACT SHOULD MARK THE IMPORTANCE OF THE COMMUNITY'S ROLE IN THE WORLD, AND TAKE ACCOUNT OF THE IDEAS IN THE FRENCH RELANCE DOCUMENT. HE UNDERSTOOD THAT COOPERATION ON MILITARY MATTERS IN THE FRAMEWORK OF THE TEN WAS REJECTED, BUT IN FACE OF WORLD TENSIONS THE TEN NEEDED SOLID SECURITY POLICIES. REFERENCES TO MAJORITY VOTING IN THE ACT SHOULD BE STUDIED TAKING ACCOUNT OF HOW THE LUXEMBOURG COMPROMISE WOULD WORK IN PRACTICE AND THE COMMENTS ON THIS SUBJECT IN THE RELANCE PAPER. GENERALLY THE PROMULGATION OF THE ACT WOULD NOT DETRACT FROM THE NEED FOR ACTION ON THE ECONOMIC AND SOCIAL ACTION. VARFIS (GREECE): THE PROPOSALS SHOULD TAKE ACCOUNT OF THE INTERESTS OF THE TEN, NOTABLY ON SECURITY. AS REGARDS SOCIAL AND ECONOMIC INTERESTS THE MANDATE WAS NOT THE ONLY RELEVANT EXERCISE.

3

8. OLESEN (DENMARK) AGREED THAT THE COMMUNITY NEEDED MORE THAN EVER TO SPEAK WITH ONE VOICE BUT POCO HAD ALREADY DEVELOPED WELL AND TOP PRIORITY SHOULD BE GIVEN TO WORK IN THE EUROPEAN COMMUNITY. UNEMPLOYMENT, VULNERABILITY ON ENERGY SUPPLIES, OUT-OF-DATE INDUSTRIAL STRUCTURES, RELATIONS WITH THE OUTSIDE WORLD WERE THE REAL PROBLEMS. DOOGE(IRELAND): THE COMMUNITY'S ULTIMATE GOAL SHOULD BE A REAL EUROPEAN UNION BUT THE SUPPORT OF CITIZENS FOR THAT WOULD BE FORTHCOMING ONLY IF REAL SOLUTIONS WERE FOUND TO REAL PROBLEMS. HE THEREFORE ATTACHED SPECIAL IMPORTANCE TO THE SECTION IN THE REPORT ON THE NEED FOR CONCRETE EC MEASURES. THESE IN TURN REQUIRED A TRANSFER OF INCREASED RESOURCES TO THE COMMUNITY AND THE LIFING OF THE 1 PER CENT CEILING. HE AGREED THERE WAS

/ SCOPE FOR

SCOPE FOR IMPROVED EC/POLITICAL COOPERATION COORDINATION AND FOR DEEPENING, WITHOUT BROADENING, SECURITY COOPERATION ON THE BASIS OF THE LONDON REPORT. HE SHARED MY DOUBTS ABOUT THE USE OF THE WORD ''ACT''. DE KEERSMAKER (BELGIUM) SUPPORTED THE INITIATIVE GENERALLY AND THE IDEA OF BRINGING TOGETHER COUNCIL AND POLITICAL COOPERATION WORK SPECIFICALLY. THERE SHOULD ALSO BE PROVISION IN THE ACT FOR MORE STRUCTURED RELATIONS WITH THE UNITED STATES.

9. THE PRESIDENCY (TINDEMANS AND DE SCHOUTHEETE) CONCLUDED THERE WAS A CLEAR POLITICAL WILL TO CONTINUE THE EXERCISE. THE AD HOC GROUP SHOULD WORK FOR A REVISED DRAFT ACT IN THE LIGHT OF COMMENTS AT THIS MEETING FOR THE MINISTERIAL SESSIO N PROBABLY ON 24 MAY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE PREAMBLE, MAJORITY VOTING, RELATIONS WITH THE PARLIAMENT, COORDINATION BETWEEN THE COUNCIL AND POLITICAL COOPERATION, AND SECURITY COORDINATION. CULTURAL AND LEGAL ASPECTS SHOULD BE COVERED. LATER THERE SHOULD BE FURTHER DISCUSSION ON THE FORM AND TITLE OF THE DOCUMENT.

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MOD - STEWART
DES - BANKS

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

3Ø MAY MANDATE

1. M. CHANDERNAGOR, MINISTER FOR EUROPEAN AFFAIRS, SPOKE AT A LUNCH WITH THE FRENCH DIPLOMATIC PRESS ON 18 FEBRUARY ABOUT THE PRESENT STATE OF THE COMMUNITY. HE USED STRONGER TERMS THAN FRENCH GOVERNMENT SPOKESMEN HAVE BEEN USING IN THE RECENT PAST. HE SINGLED OUT BRITAIN FOR PARTICULAR CRITICISM. THE LIMITED REPORTS OF HIS REMARKS WHICH HAVE APPEARED IN THE FRENCH PRESS TODAY HAVE STRESSED THIS POINT. NO TEXT OF M. CHANDERNAGOR'S REMARKS IS YET AVAILABLE. THE FOLLOWING IS BASED ON NOTES MADE BY A MEMBER OF MY STAFF WHO WAS PRESENT.

2. M. CHANDERNAGOR OPENED BY SAYING THAT THE COMMUNITY WAS ''PROBABLY ON THE EVE OF A CRISIS OF WHICH NO ONE UNDERESTIMATES THE SERIOUSNESS''.

UNDOZKE WAS THE KIND OF COMMUNITY WHICH THE MEMBER STATES REALLY WANTED. IN ANSWER TO QUESTIONS ABOUT THE MANDATE, M. CHANDERNAGOR SAID THAT SOME PROGRESS HAD BEEN MADE ON THE FIRST TWO CHAPTERS BUT THAT THERE WAS TOTAL FAILURE ON THE BUDGETARY ISSUES. THE DUTCH PROPOSAL FOR ''AN ELEMENT OF DEGRESSIVITY'' IN FUTURE REFUNDS TO BE PAID TO THE UK HAD BEEN REJECTED BY BRITAIN ALTHOUGH IT HAD REPRESENTED A MORE CONCILIATORY POSITION THAN M. CHANDERNAGOR WOULD PERSONALLY HAVE SUGGESTED. BRITAIN COULD NOT EXPECT HER PARTNERS TO OFFER ANYTHING MORE. TWO CONCEPTIONS OF THE COMMUNITY WERE AT ISSUE. ONE WAS BASED ON A GENUINE COMMUNITY OF SPIRIT AND A MEANINGFUL CAP. THE OTHER, WHICH BRITAIN APPEARED TO WANT, INVOLVED EACH MEMBER STATE DOING ITS SUMS AT THE END OF THE YEAR AND DEMANDING A CHEQUE FOR THE DIFFERENCE BETWEEN ITS CONTRIBUTIONS AND RECEIPTS. WHAT KIND OF COMMUNITY WAS THIS? IF BRITAIN WANTED A COMMUNITY WHICH PROVIDED FOR SUCH A TRANSFER OF RESOURCES BETWEEN THE RICHER MEMBERS OF THE COMMUNITY IN ADDITION TO ALL THE OTHER BUDGETARY COMMITMENTS OF THE TEN, SHE SHOULD NOT HAVE JOINED IN THE FIRST PLACE. IF EVERYONE WANTED TO CHANGE THE COMMUNITY TO SUIT THEIR OWN VISION OF WHAT IT SHOULD BE, IT WOULD BE BETTER TO START AGAIN FROM A MEMBERSHIP OF SIX.

3. ASKED ABOUT AGRICULTURAL PRICE-FIXING, M. CHANDERNAGOR SAID THAT FRANCE WOULD BE SEEKING THE HIGHEST POSSIBLE PRICES. THE ACTUAL FIGURE WOULD BE THE SUBJECT OF NEGOTIATIONS. ON UK TACTICS, M. CHANDERNAGOR SAID IT WAS WRONG OF ONE MEMBER STATE TO HOLD UP COMMUNITY BUSINESS SIMPLY BECAUSE IT COULD NOT HAVE ITS OWN WAY

/ON

ON AN UNRELATED ISSUE (FOR WHICH, HE CLAIMED, THERE WAS IN ANY CASE NO PROVISION IN THE TREATY OF ROME). THERE WAS A DEFINITE REQUIREMENT TO SETTLE AGRICULTURAL PRICES BEFORE THE NEW SEASONS OPENED BUT NO SUCH OBLIGATION TO AGREE THE UK'S REFUNDS, WHICH WERE ALREADY SETTLED FOR 1982. IT WOULD BE SEEN WHETHER THE WHOLE COMMUNITY HAD TO TAKE COVER SIMPLY BECAUSE GREAT BRITAIN SNEEZED.

4. M. CHANDERNAGOR MENTIONED FISHERIES AS ANOTHER EXAMPLE OF BRITAIN'S REFUSAL TO ACCEPT COMMUNITY REGULATIONS. UNDER THE SAME HEADING HE CRITICISED THE PRESSURES TO WHICH BRITAIN SUBJECTED HER PARTNERS TO INCREASE THEIR IMPORTS FROM AUSTRALIA AND NEW ZEALAND. THESE COUNTRIES WERE ALSO THE ALLIES OF THE USA. BUT HOW MUCH NEW ZEALAND BUTTER OR AUSTRALIAN BEEF DID THE AMERICANS BUY? A FINAL QUESTION ABOUT THE LUXEMBOURG COMPROMISE LED TO A FURTHER, THOUGH UNSPECIFIC, SUGGESTION THAT THE TACTICS EMPLOYED BY THE UK AS PRESIDENCY TO SECURE APPROVAL OF ECSC LOANS FOR SONY'S TELEVISION FACTORY IN SOUTH WALES HAD BEEN INAPPROPRIATE.

HIBBERT

FRAME ECONOMIC
ECD (I)
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PS|PUS

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Blind cc:- Mr Coles Duty Clerk
Mr Gow Front Door

PRIME MINISTER

The following will be attending the meeting at 1500 hrs on Monday, 22 February to discuss the Community Budget:-

Mr Maurice Macmillan, MP

Sir Anthony Meyer, MP

Mr David Myles, MP

Mrs Sheila Faith, MP

Mr Hugh Dykes, MP

Mr Robin Squire, MP

Mr Eldon Griffiths, MP

Mr Kenneth Carlisle, MP

Mr John Osborne, MP

Sir Brandon Rhys Williams, MP

Paul Hawkins and David Knox send their regrets.

CAROLINE STEPHENS

19 February, 1982

Euro Pol

GPS 440

CONFIDENTIAL

CONFIDENTIAL

FRAME ECONOMIC

FM BONN 1912OOZ FEB 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 151 OF 19 FEBRUARY

AND TO IMMEDIATE UKREP BRUSSELS

AND TO ROUTINE DUBLIN PARIS ROME LUXEMBOURG COPENHAGEN THE HAGUE EMBASSY BRUSSELS AND ATHENS

YOUR TELNO 69: 30 MAY MANDATE

1. HERR GENSCHER RECIEVED ME THIS MORNING AND I TOOK HIM THROUGH ALL THE POINTS MADE IN YOUR TELEGRAM. HERR GENSCHER SAID HE HIMSELF WANTED A SOLUTION ON THE MANDATE BEFORE THE EUROPEAN COUNCIL AND AGREED THAT THE THREE CHAPTERS NEEDED TO BE DEALT WITH IN PARALLEL. HE ASKED WHAT PROGRAMME WE HAD IN MIND FOR MEETINGS: I SAID I HOPED THAT THIS WOULD COME OUT OF THE MEETING OF MINISTERS ON 23 FEBRUARY. HE AGREED TO SUPPORT YOU IN TRYING TO GIVE AN IMPETUS TO THE SEARCH FOR SOLUTIONS. HE WAS UNDERSTANDING OVER OUR CONCERN THAT FURTHER DISCUSSION OF GUIDELINES SHOULD NOT BE ALLOWED TO DELAY THE SEARCH FOR SUBSTANTIVE SOLUTIONS THOUGH HE CLEARLY WOULD PREFER TO WORK FROM GUIDELINES TO THE SUBSTANTIVE.

2. I TOOK HIM THROUGH THE ARGUMENTS ABOUT DEGRESSIVITY AND PARTICULARLY THE PROBLEMS CAUSED BY ARBITRARY FIGURES. I HAD THE IMPRESSION THAT HE HAD NOT QUITE UNDERSTOOD PREVIOUSLY THE MEANING OF ARBITRARY BUT I THINK HE IS QUITE CLEAR ABOUT THIS NOW. HERR GENSCHER WAS EXTREMELY INTERESTED IN WHAT I HAD TO SAY ABOUT DEGRESSIVITY IN THE SENSE THAT PARAGRAPH 3 OF THE COMMISSION PROPOSALS WOULD LEAD TO AN INCREASE IN OUR NET CONTRIBUTION AS THE COMMUNITY BUDGET INCREASED, AS SET OUT IN PARAGRAPH 1 (V) OF YOUR TELEGRAM. HE ASKED WHETHER I HAD A FORMULA FOR THIS. I EXPLAINED THAT THIS WAS SIMPLY A RESULT THAT WOULD COME FROM APPLYING PARAGRAPH 3 OF THE DRAFT GUIDELINES AND WAS AN INTERPRETATION RATHER THAN A FORMULA. HE ASKED WHETHER WE COULD NOT NEVERTHELESS TRY TO TURN IT INTO A FORMULA AND VERY MUCH HOPED THAT YOU MIGHT BE ABLE TO GIVE HIM A PIECE OF PAPER ON 23 FEBRUARY. CLEARLY WHAT HE IS AFTER IS SOMETHING THAT CAN MENTION DEGRESSIVITY OR RISK SHARING SHOULD THE FINANCIAL EFFECT FOR THE UK OF NEW PROGRAMMES NOT PRODUCE A NET REDUCTION IN OUR CONTRIBUTIONS.

3. HERR GENSCHER SAID HE HAD DISCUSSED THE PROBLEM OF RISING BRITISH CONTRIBUTIONS WITH HERR FISCHER YESTERDAY AND SUBSEQUENTLY MADE THE POINT TO M CHEYSSON THAT RISING CONTRIBUTIONS WOULD PRESENT A BIG PROBLEM FOR US.

4. I HAVE THE IMPRESSION THAT HERR GENSCHER'S DETERMINATION TO TRY TO GET A SOLUTION BEFORE THE EUROPEAN COUNCIL IS PARTLY CONNECTED WITH HIS DESIRE TO PUSH AGREEMENT ON THE QUOTE EUROPEAN ACT UNQUOTE FORWARD QUICKLY. HE EXPLAINED THAT HE THOUGHT THAT COMMUNITY AGREEMENT ON THE GERMAN/ITALIAN PROPOSALS WOULD MAKE A BIG IMPACT IN EASTERN EUROPE IN RELATION TO THE POLISH CRISIS: IN THE PAST DIFFICULTIES IN EAST/WEST RELATIONS HAD HAD THE EFFECT OF CONSOLIDATING WESTERN POSITIONS BUT AFTER AFGHANISTAN AND POLAND THIS HAD NOT AUTOMATICALLY FOLLOWED AND HE SAW HIS INITIATIVE AS SOMETHING THAT WOULD DEMONSTRATE EUROPEAN SOLIDARITY IN THE FACE OF SOVIET BEHAVIOUR.

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No. 10 DOWNING STREET

MEETING WITH MR MAURICE MACMILLAN MP AND OTHERS :

17 FEBRUARY 1982

EUROPEAN COMMUNITY BUDGET

Points to Make

1. Believe that fears expressed in your letter are misplaced. Situation not the same as in 1980:

(a) our partners agreed in 1980 to try to find a longer-term solution to the problem. Present negotiations designed to fulfil that commitment.

(b) issue is not only size of our net contribution, but also reform of CAP and development of other Community policies. Major opportunity to improve balance of budget between CAP and other policies.

(c) already got broad agreement that UK position should be corrected by a special arrangement for four or five years with a review at the end of the period.

(d) negotiation has been a more low-key affair and has attracted much less public interest.

2. Confident that outcome of negotiation will be a substantial reduction in our net contribution over the medium term. Important that it should be; cannot accept your view that amount of public money involved (£1,000m in 1982 before refunds) is not significant.

3. Size of net contribution is an important factor in shaping public attitudes towards Community. Indeed, success of 30 May agreement may be one reason for recent welcome improvement in opinion polls. Successful outcome to present negotiation would enable us to argue both that UK has a better deal and that EC policies are better structured for the future.

4. In conducting negotiation we are mindful of the two dangers mentioned in your letter. We have so far been careful not to build up public expectations. We have also avoided being isolated in the Community and have won favourable comment both here and in Europe for the conduct of our Presidency. Ministerial speeches, eg Douglas Hurd's on 4 February, present a realistic view of the negotiation. Taking care to ensure a co-ordinated Government line through Francis Pym's machinery, in which some of you are involved.

5. As we start to focus on amounts of refunds, going in Brussels may well get rougher. We shall bear problem of public opinion in this country in mind, but have to defend basic British interests. Could not for example accept, as our partners wish, that our refunds should decline automatically over time without regard to whether our problem was getting better or not. That would be wholly arbitrary and could worsen our position in only a few years' time.

6. [<u>If suggested that we should go for a short-term solution over two or three years</u>]

See no advantage in this. Other Member States already prepared to accept four or five years. Much better not to have to go through another budget negotiation after an even shorter period which would be damaging to the Community. Amounts of refunds unlikely to be higher, even if duration shorter; our partners realise that we shall require refunds for some while yet.

Essential Facts

7. This meeting arises from a letter sent to the Prime
A Minister on 4 February by Mr MacMillan and other MPs. They are concerned that a confrontation over the budget may damage public attitudes towards the Community, which according to recent opinion polls have been improving. The views expressed in the letter are in some respects similar to those
B of an editorial in the "Sunday Times" on 7 February. This said that we should be prepared to settle for a two year budget deal. The MPs do not mention this in their letter, but it is possible that it may be raised in discussion.

8. Paragraph 3 of the Points to Make refers to a recent
C speech by Mr Hurd on the budget problem, and a copy of an extract from this is attached. The same paragraph also refers to the arrangements for the Lord President of the Council to co-ordinate the presentational aspects of EC affairs, such as Ministerial speeches, as part of a sustained effort on which Ministers agreed a year ago to promote greater public understanding of the facts about our EC membership. A number of backbench MPs, including some of those in this group (such as Sir A Mayer) are involved in helping the Government's efforts in the regions.

9. There is something of a pause at present in the negotiation on the 30 May Mandate. Foreign Ministers met informally for the third time on 25 January but again failed to agree on guidelines covering the four issues indentified by the European Council - milk support, Mediterranean agriculture, the overall level of capital expenditure and the budget problem. The main point of difficulty was our partners' insistence that any budget arrangement should involve a declining level of compensation to us irrespective

of whether our underlying problem was improving - automatic degressivity. Foreign Ministers agreed that the Presidents of the Council and Commission should take soundings among the Member States to try to find the basis for a solution. Lord Carrington has urged them to table the figures which would enable the Council to start discussing the detailed points which need to be settled on the budget including the precise method and amount of our compensation. The Germans however are still reluctant to abandon the guidelines exercise. The Belgian Presidency is proposing that Foreign Ministers should discuss the way forward over lunch at the Foreign Affairs Council on 23 February. We understand that the figures which we have requested will then be available.

10. The estimate of our 1982 unadjusted net contribution is based on the latest indication received from the Commission, which is in our view rather conservative. They now estimate that our net contribution will be about 1800m ecu, which, converted at today's sterling/ecu exchange rate, is almost exactly £1000m.

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LR

cc CAP file

Ref. A07541

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer could report on the outcome of the 15th February Finance Council, at which the United Kingdom was represented by the Financial Secretary, Treasury. The only item on the formal agenda was the further development of the European Monetary System, in preparation for the expected discussion of this subject at the March European Council. The discussion focused on technical improvements in the mechanisms of the EMS, on which the Commission were asked to make proposals for consideration at the next Finance Council. In the margins of the Council it was agreed that the Belgian Presidency should convey to President Reagan, during a visit to Washington this week, the Community's concern at the impact of American economic and monetary policies on world interest rates and seek consultations with the United States on these questions.

2. The Minister of Agriculture should report on the first round of discussions on the CAP price fixing proposals at the 15th-16th February Agriculture Council. The Germans did not take a position; all other member states except the United Kingdom pressed for higher prices than those proposed by the Commission. Mr. Walker also pressed the Commission to take further action on the most recent package of French national aids and the Netherlands differential gas pricing measures favouring their horticultural industry.

3. Next week the Foreign Affairs Council meets on 22nd-23rd February and the Special Textiles Council on 25th February.

RTA

ROBERT ARMSTRONG

17th February, 1982

CONFIDENTIAL

From: George Gardiner, M.P.

House of Commons,
LONDON, SW1A OAA.

17th February 1982

Dear Margaret-

Anthony Meyer has kindly shown me, as chairman of our European Affairs Committee, the letter to you signed by himself, Maurice Macmillan and 11 others expressing certain misgivings over the conduct of the EEC Budget negotiations.

I did not feel able to add my signature, and I can tell you that there were other strong supporters of Community membership who declined as well. Our view is broadly that it must be left to the Government to decide its negotiating tactics according to circumstances - and if this should entail blocking fresh agreement on farm prices, then so be it.

Of the "double danger" cited in the Macmillan/Meyer letter, I agree with the first. It is always folly to build up public expectations that cannot be fulfilled.

However, I cannot agree the second. I think it essential, if we are to win popular support for EEC membership and for ourselves, for it to be seen clearly that a Conservative Government fights strongly for Britain's interest from within, while a Labour Government would pull us out with such damaging consequences. In other words, the British interest card needs to be played to trump the isolationist one.

The real danger, as I see it, lies in these Budget negotiations dragging out until a general election is almost upon us.

The question is being discussed at this evening's meeting of the European Affairs Committee, under the heading "UK Negotiating Stance on Budget Reform". I will let you know the balance of views expressed.

Yours ever

George

Rt. Hon. Mrs. Margaret Thatcher, M.P.

GRS 380

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FM BONN 161605Z FEB 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 138 OF 16 FEBRUARY

AND TO IMMEDIATE UKREP BRUSSELS DUBLIN PARIS ROME LUXEMBOURG COPENHAG

THE HAGUE EMBASSY BRUSSELS ATHENS

MANDATE

1. I HAD A TALK THIS MORNING WITH PER FISCHER COVERING THE MANDATE DISCUSSIONS, AMONG OTHER THINGS.

2. FISCHER SAID THAT THE GERMANS ATTACHED THE UTMOST IMPORTANCE TO MAKING QUICK PROGRESS ON THE MANDATE, OTHERWISE THE DISCUSSIONS WOULD BE POSTPONED TO THE AUTUMN AND DRAG INTO NEXT YEAR, AND WE WOULD HAVE TO ARGUE ABOUT A 1982 SETTLEMENT UNDER THE 30 MAY AGREEMENT. THE GERMANS REMAINED CONVINCED THAT WE SHOULD ENDEAVOUR TO GET AGREEMENT ON GUIDELINES. THEY DID NOT OBJECT TO HAVING COMMISSION FIGURES ON THE TABLE TO ILLUSTRATE THE SCALE OF THE PROBLEM BUT THEY FELT IT WOULD BE EXTREMELY DANGEROUS AT THIS JUNCTURE TO GET INTO A DISCUSSION ON THE ACTUAL SIZE OF CONTRIBUTIONS. THEY BELIEVED THAT IT WOULD BE MUCH MORE PRODUCTIVE AND HELPFUL TO DISCUSS FIGURES IN DETAIL AFTER AGREEMENT HAD BEEN REACHED ON PRINCIPLES. THE SIZE OF CONTRIBUTIONS FROM VARIOUS MEMBERS WOULD CLEARLY HAVE TO BE SUBJECT TO NEGOTIOTION.

3. ON GUIDELINES, FISCHER REPEATED AS HE TOLD HANCOCK, THAT GENSCHER PERSONALLY FELT VERY STRONGLY THAT DEGRESSIVITY SHOULD NOT ONLY TAKE ACCOUNT OF ANY IMPROVEMENT IN OUR POSITION TO BE EXPECTED FROM THE DEVELOPMENT OF NEW POLICIES, BUT ALSO REQUIRE US TO CARRY A SHARE(NOT SPECIFIED) OF ANY GROWING BURDEN. OTHERS, INCLUDING THE FEDERAL REPUBLIC, WOULD ALSO HAVE TO SHOULDER ADDITIONAL BURDENS IF THE INDICATORS (IE GAP BERWEEN GDP SHARE AND RECEIPTS) DID NOT WORK OUT AS EXPECTED. FISCHER WAS IMMOVABLE ON THE NEED TO INCORPORATE THE LATTER PRINCIPLE AND PRETTY IMPERVIOUS TO ARGUMENTS ABOUT ARBITRARINESS AND UNFAIRNESS. HE ARGUED THAT OUR PROBLEM, AND THEREFORE CONTRIBUTION, WOULD DIMINISH AS NEW POLICIES TOOK EFFECT AND THAT DEGRESSIVITY IN EFFECT MEANT A SLOWLY GROWING PROPORTION OF A DIMINISHING PROBLEM, BUT HE DID NOT ACCEPT THE NEED FOR A SAFETY NET IF THE PROBLEM DID NOT IN FACT DIMINISH. I EXPLAINED BOTH THE POLITICAL AND ECONOMIC NECESSITIES FOR A SOLUTION THAT COULD BE DEMONSTRATED TO BE ACCEPTABLE. THE ONLY FLEXIBILITY I COULD DETECT IN FISCHER'S POSITION WAS ON THE QUESTION OF THE PERCENTAGE OF THE BURDEN THAT WE SHOULD BE EXPECTED TO BEAR, WHICH WOULD BE SUBJECT TO NEGOTIATION.

4. FISCHER UNDERSTOOD THAT THE COMMISSION WOULD PRODUCE ITS ILLUSTRATIVE FIGURES IN TEN DAYS' TIME AND EXPECTED TINDEMANS AND THORN TO PRODUCE PROPOSALS FOR THE GUDELINES AND A SETTLEMENT AT THE BEGINNING OF MARCH. HE THOUGHT THAT THEY MIGHT SUGGEST A SPECIAL MINISTERIAL MEETING TO DISCUSS THE MANDATE AROUND 20 MARCH.

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Guy PM,

meeting cancelled.

10 DOWNING STREET

Prime Minister

EC Budget : Meeting with M.P.'s

Lord Carrington will attend.

The meeting is arranged for 1600 hrs. But you may want to be on the front bench for the Canada bill then. Shall we try to rearrange?

Yes. I'm looking forward to listening to the debate for quite a time now

A.J.C. 16/2

Euro Pol

Foreign and Commonwealth Office

London SW1A 2AH

16 February 1982

Dear John.

European Community Budget

I enclose a brief for the Prime Minister for the meeting ~~tomorrow~~ with Mr Maurice Macmillan and other MPs about the negotiations over the European Community budget.

Yours ever.

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

MEETING WITH MR MAURICE MACMILLAN MP AND OTHERS :
17 FEBRUARY 1982

EUROPEAN COMMUNITY BUDGET

Points to Make

1. Believe that fears expressed in your letter are misplaced. Situation not the same as in 1980:

(a) our partners agreed in 1980 to try to find a longer-term solution to the problem. Present negotiations designed to fulfil that commitment.

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6. [If suggested that we should go for a short-term solution over two or three years]

See no advantage in this. Other Member States already prepared to accept four or five years. Much better not to have to go through another budget negotiation after an even shorter period which would be damaging to the Community. Amounts of refunds unlikely to be higher, even if duration shorter; our partners realise that we shall require refunds for some while yet.

Essential Facts

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A Minister on 4 February by Mr MacMillan and other MPs. They are concerned that a confrontation over the budget may damage public attitudes towards the Community, which according to recent opinion polls have been improving. The views expressed in the letter are in some respects similar to those
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9. There is something of a pause at present in the negotiation on the 30 May Mandate. Foreign Ministers met informally for the third time on 25 January but again failed to agree on guidelines covering the four issues indentified by the European Council - milk support, Mediterranean agriculture, the overall level of capital expenditure and the budget problem. The main point of difficulty was our partners' insistence that any budget arrangement should involve a declining level of compensation to us irrespective

of whether our underlying problem was improving - automatic degressivity. Foreign Ministers agreed that the Presidents of the Council and Commission should take soundings among the Member States to try to find the basis for a solution. Lord Carrington has urged them to table the figures which would enable the Council to start discussing the detailed points which need to be settled on the budget including the precise method and amount of our compensation. The Germans however are still reluctant to abandon the guidelines exercise. The Belgian Presidency is proposing that Foreign Ministers should discuss the way forward over lunch at the Foreign Affairs Council on 23 February. We understand that the figures which we have requested will then be available.

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[FRAME ECONOMIC]
CONFIDENTIAL
FM COPENHAGEN 151120Z FEB 82
TO PRIORITY FCO
TELEGRAM NUMBER 27 OF 15 FEBRUARY
INFO PRIORITY UKREP BRUSSELS
SAVING TO OTHER EC POSTS

YOUR TELNO 23 TO ATHENS: 30 MAY MANDATE: DANISH ATTITUDE

1. H OF C AND I HAD A LONG DISCUSSION ON 12 FEBRUARY WITH OTTO MOELLER (DEPUTY PUS (ECONOMIC), MFA) AND OERSTROEM-MOELLER. THERE WERE SOME ENCOURAGING FEATURES, FULLY CONFIRMING RECENT IMPRESSIONS THAT THE DANES HAVE COME A VERY LONG WAY FROM THEIR ORIGINAL THREAT OF VETO. INDEED, THEIR MINDS PERHAPS CONCENTRATED BY THEIR IMPENDING PRESIDENCY AND BY THEIR NEED TO AVOID DELAY IN THE CAP PRICE-FIXING, THEY APPEARED TO WANT AN EARLY SETTLEMENT. BUT THEY SHOWED NO SIGN OF READINESS TO MAKE CONCESSIONS ON DEGRESSIVITY.

2. IN ARGUING THE NEED TO GET DOWN TO EARLY DISCUSSION OF FIGURES I WAS PUSHING AT AN ALREADY OPEN DOOR. MOELLER FORESTALLED ME, ENQUIRING WHETHER WE HAD ANY NEWS OF ANY INITIATIVE IN THAT DIRECTION BY THE TWO PRESIDENTS. HE HOPED WE HAD REGISTERED THAT MR OLESEN HAD BEEN READY TO SETTLE GUIDELINES ON 25 JANUARY: THE DANES HAD BEEN DISAPPOINTED THAT OTHERS WERE NOT. BUT THAT PHASE WAS NOW OVER AND IT WAS NECESSARY FOR E.G. THE COMMISSION TO PUT SPECIFIC FIGURES ON THE TABLE. I SUGGESTED THAT THE DANES THEMSELVES SHOULD PUT THIS THOUGHT TO THE COMMISSION. (M. THORN WILL BRIEFLY TRANSIT COPENHAGEN AIRPORT ON 19 FEBRUARY, BUT UNFORTUNATELY MR OLESEN HIMSELF WILL BE ABROAD.)

3. ON DURATION MOELLER ALL BUT SAID IN PLAIN LANGUAGE THAT DENMARK WILL GO TO 5 YEARS, THOUGH IT SEEMED THAT THE DANES HAVE NOT CONSIDERED IN DETAIL WHETHER THIS SHOULD RUN ALREADY FROM 1982.

4. WE SKIRTED GINGERLY ROUND THE SUBJECT OF ACTUAL FIGURES. I FIRST MADE THE POINT THAT THE IDEAS REFERRED TO IN FCO TELNO 32 TO ATHENS WERE NOT ACCEPTABLE. MOELLER SAID HE HAD HEARD OF TWO FIGURES IN CIRCULATION, ONE SAID TO DERIVE FROM BRITISH SOURCES. HE NAMED NEITHER BUT, WITHOUT SAYING SO, GAVE THE IMPRESSION HE SAW BOTH AS OPENING BIDS. LATER I OBSERVED THAT NO GREAT PROBLEMS APPEARED TO HAVE BEEN CAUSED TO OUR PARTNERS BY THE PROBABLE NETT BRITISH OUT-TURN FOR 1981 OF ONLY 100 MECU: HE AT LEAST DID NOT REACT AGAINST THIS STATEMENT.

/5. THE

5. THE LEAST SATISFACTORY ASPECT OF THE DISCUSSION WAS DEGRESSIVITY. NO AMOUNT OF ARGUMENT SEEMED TO MAKE ANY IMPACT, THOUGH MOELLER CLAIMED THAT HE COULD UNDERSTAND OUR ARGUMENT WHILE NOT ACCEPTING THE PREMISES ON WHICH WE BASE IT. BUT AT LEAST HE WAS LED TO BRING OUT, PERHAPS MORE CLEARLY THAN BEFORE, THE UNDERLYING DANISH FEARS. MOELLER APPEARED TO ARGUE FOR DEGRESSIVITY NOT SO MUCH FOR ITS OWN SAKE IN REDUCING THE IMMEDIATE BILL FOR DENMARK, BUT MORE BECAUSE IT WOULD HELP TO DEMONSTRATE THE WHOLLY ARBITRARY NATURE OF THE SOLUTION. HE SAID SEVERAL TIMES THAT THE DANES WOULD CONTRIBUTE TO SOLVING OUR QUOTE POLITICAL UNQUOTE PROBLEM. (I POINTED OUT THAT THEY SHOULD THEN ESCHEW DEGRESSIVITY, WHICH WOULD KEEP THE POLITICAL PROBLEM ALIVE.) BUT THEY WANTED THIS SOLUTION TO COME BY PURELY POLITICAL AGREEMENT, ON FIGURES TAKEN AS FAR AS POSSIBLE STRAIGHT OUT OF THE AIR, WITH THE MINIMUM OF MECHANISM, OBJECTIVE INDICATORS AND THE LIKE, SINCE THESE COULD NOT FAIL EVENTUALLY TO UNDERMINE THE OWN RESOURCES SYSTEM AND THE COMMUNITY ITSELF. (THEY ARGUED THAT THE ONLY MACHINERY REQUIRED WAS A REGULATION TO EFFECT THE ACTUAL TRANSFERS.) THEY FEARED THAT OUR LONGER-TERM OBJECTIVE WAS TO CHANGE THE SYSTEM. THE ULTIMATE SOLUTION FOR US HAD TO COME BY THE EXPANSION OF NON-AGRICULTURAL POLICIES, AS DENMARK HAD ADVOCATED FOR MANY YEARS, THOUGH THESE HAD ALWAYS BEEN BLOCKED BY ONE OR OTHER OF THE MAJOR MEMBER STATES.

6. COMMENT. THE LOGIC OF THIS DANISH ANALYSIS IS OF COURSE CLEAR. BY REINFORCING THE CONCEPT OF NETT CONTRIBUTIONS, AND BY INTRODUCING AN OBJECTIVE INDICATOR TRIGGERING AUTOMATIC CORRECTIONS (PARTICULARLY SO LONG AS THESE OPERATE ONLY ON BUDGETARY FLOWS RATHER THAN ON TOTAL RESOURCE FLOWS IN CAP TRADE ETC), THE COMMUNITY WOULD TAKE A BIG STEP NEARER A SITUATION IN WHICH THE DANES WOULD FIND IT HARD TO WITHSTAND PRESSURES ON THEM TO BECOME NETT CONTRIBUTORS. THE EVOLVING GERMAN ATTITUDE AND E.G. THE PROSPECT OF PORTUGUESE ACCESSION ONLY INCREASES THEIR ANXIETY. SO BETTER TO BUY US OFF WITH DEMONSTRABLY AD HOC SOLUTIONS EVEN IF RELATIVELY LONG-LASTING.

FCO PLEASE PASS, SAVING TO ALL.

WARBURTON

[REPEATED AS REQUESTED]
[COPIES SENT TO NO 10 DOWNING STREET]
[THIS TELEGRAM WAS NOT ADVANCED]

FRAME ECONOMIC
ECD (I)
PS
PS/PUS

cc LPS
D/N
DOI
CO

HEL

10 DOWNING STREET

From the Private Secretary

15 February 1982

Finance Council

The Prime Minister has seen Mr. Ridley's minute of 11 February to the Lord Privy Seal about today's Finance Council and is content with the approach described in the last paragraph.

I am sending copies of this letter to Michael Arthur (Lord Privy Seal's Office), Julian West (Department of Energy), Jonathan Spencer (Department of Industry) and David Wright (Cabinet Office).

A. J. COLES

David Willetts, Esq.,
Financial Secretary's Office,
H.M. Treasury.

Treasury Chambers, Parliament

Street, SW1P 3AG

Enclosures from the

Financial Secretary

Prime Minister

Content with line suggested in final para?

Yes MT

A.J.C. 12/2

(1)

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Humphrey Atkins
Foreign and Commonwealth Office
King Charles Street
LONDON
SW1

11 February 1982

Dear Humphrey

FINANCE COUNCIL

You will have seen Nigel Lawson's letter to the Chancellor of 9 February recommending that we accept the Commission's proposal for the Euratom loans scheme at Monday's Council. The Presidency also propose to discuss the New Community Instrument (NIC), probably over lunch. I shall be going to the Council on the Chancellor's behalf.

I can understand Nigel Lawson's desire that we should agree to the proposal. But I am bound to say that, although we have no real reason to oppose the proposal, we equally have no particular interest in accepting it. Given this, it seems to me that there is something to be said for going for delay before giving our agreement. I do not suggest that this will provide us with a powerful lever in the Mandate context. But other member states will need to have things to show for their agreement over our budget contribution; and, however marginal it may be, this proposal could be one of those things. As long as other member states - especially the Germans - do not show their hands on Monday, therefore, I suggest that we too should avoid committing ourselves.

The real difficulty will be if all others accept the proposal. I agree that we would not want at this stage to be regarded as blocking proposals just because we had not got our way in the Mandate negotiations. If there is a real danger of our position being so interpreted, then I think we might reluctantly give our agreement. But I feel strongly that we should be able to present our case as simply seeking for a delay for further reflection. I understand that the Germans are likely to take a similar position.

There is a similar problem about the NIC. We do not believe the Presidency proposal will be acceptable to the Parliament, which has asked for conciliation on NIC II. I expect other member states to share our hesitations. But once again, if we are isolated, there is a risk that we may be thought to be blocking Community business - and in this case even reneging on an agreement which we accepted in October of last year - simply because of the Mandate. I believe we could still present our position in the same way as for Euratom, that is needing a pause for reflection; but if we are pressed strongly by all our partners, we might reluctantly have to give our agreement. This does not of course apply to the 3 billion proposal in the Mandate negotiations, where I am clear that we must hold out even if isolated and pressed.

I conclude, therefore, that if it is possible to secure the sympathy of other member states, I should defer giving agreement to either proposal. If, however, all my colleagues give their agreement, and press me to do so as well, I think I should be ready to accept the proposals with reluctance. Otherwise it might be concluded that we had moved to the stage of blocking progress in the Community when we are not yet ready to do so.

I am copying this to Nigel Lawson, Patrick Jenkin and Sir Robert Armstrong. In view of the possible implications for the Mandate negotiations I am also copying this and Nigel Lawson's letter to the Prime Minister.

Yours ever

Nicholas.

NICHOLAS RIDLEY

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

REC 9 FEB 82

ACTION Mr Vicks
COPIES TO CT
PST
Sir D Wass
Sir K. Couzens
W Ryrie
W Robinson
W Kitcher
N Duncan
Mr Hedley-Miller
W Read
W Ridley

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

9 February 1982

Dear Chancellor

I understand that the ECOFIN COUNCIL of 15 February will be considering a Commission proposal to raise from 1000 MECU to 2000 MECU the limit on loans which can be made available by the Community to those wishing to build nuclear power stations or facilities in Community countries.

On its merits, this is a proposal which we should support. The only question is whether temporarily blocking it, ostensibly on technical grounds, would provide us with any significant leverage in the Mandate negotiations.

I see no scope, however, for plausibly delaying it on these grounds. The Commission and EIB (who advise them on management of the scheme) have been fully cooperative and have provided all information necessary to justify the increase. Sufficient has been done through the Council machinery to establish the point that increases in the schemes' limits are not automatic, but have to be fully justified; and there has been no question of any impropriety in the management of the fund. Nor do I believe we could secure any worthwhile leverage in this way.

It seems to me, therefore, that on balance you would do best to agree to the Commission's proposal at Ecofin.

I am sending copies of this letter to Peter Carrington, Patrick Jenkin and Sir Robert Armstrong.

Yours sincerely

David Lemley

NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

118

Euro pol

GRS 240 CONFIDENTIAL

CONFIDENTIAL

FM THE HAGUE 111300Z FEB 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 032 OF 11 FEBRUARY

INFO IMMEDIATE UKREP BRUSSELS

30 MAY MANDATE

1. NIEMAN, DIRECTOR FOR EUROPEAN INTEGRATION AT THE MFA, TOLD COUNSELLOR THIS MORNING THAT NETHERLANDS POLICY WAS IN THE MELTING-POT PENDING FIRM NEWS OF THE INTENTIONS OF TINDEMANS AND THORN AS CONCERNED NEW PRESIDENCY/COMMISSION PROPOSALS AND THE SUGGESTED TOUR OF CAPITALS. THE DUTCH HAD STRESSED THAT THEY COULD NOT ACCEPT THAT OTHER ENGAGEMENTS MADE BY TINDEMANS AND THORN SHOULD TAKE PRECEDENCE OVER THEIR COMMUNITY TOUR.

2. THE CONSTANT IN THE NETHERLANDS POSITION REMAINED THEIR CONVICTION THAT THE PROBLEM MUST BE SETTLED IN THE VERY NEAR FUTURE, ALLIED TO CONTINUED WILLINGNESS TO HELP THE UK. THE COMMISSION'S UNDERTAKING TO PROVIDE INDICATIVE FIGURES SHOULD PROVE HELPFUL IN GETTING UNDERWAY DETAILED DISCUSSION ABOUT THE PRECISE SCALE OF REFUNDS FOR THE UK. ON DEGRESSIVITY THE MFA BELIEVED THE PROPOSAL MADE BY RUTTEN AT A COREPER MEETING LAST WEEK FOR A TWO-STAGE PERIOD WAS IMPORTANT. AS NIEMAN EXPLAINED IT, THIS INVOLVED AN INITIAL PERIOD OF 3 YEARS WITHOUT DEGRESSIVITY, WHICH WOULD ONLY APPLY DURING THE LAST TWO.

3. NIEMAN EXPLAINED THAT RUTTEN HAD MADE THIS SUGGESTION (WHICH THE DUTCH BELIEVED HAD BEEN ''WARMLY WELCOMED'') ON A PERSONAL BASIS. HE HAD OF COURSE CLEARED HIS LINES WITH VAN DER STOEL BUT NOT WITH THE MINISTER OF FINANCE. IN THE MFA VIEW THE LATTER WOULD HAVE NO CHOICE BUT TO GO ALONG WITH IT. THE PROPOSAL WAS OF COURSE A HYBRID BUT ONLY A HYBRID STOOD ANY CHANCE OF COMMANDING GENERAL ACCEPTANCE.

MANSFIELD

FRAME ECONOMIC

ECD (1)

PS

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vb

c. PRESS OFFICE

11 February 1982

Developments in the European Communities:
July to December 1981

We have no objection to the publishing arrangements set out in your letter of 11 February.

M.A. PATTISON

B.E. Bowley, Esq.,
Foreign and Commonwealth Office.

Foreign and Commonwealth Office

London S.W.1

11 February 1982

Mr Kydd
Content?
MP 4/2.

M Pattison Esq
10 Downing Street
SW1

Dear Mike,

DEVELOPMENTS IN THE EUROPEAN COMMUNITIES : JULY TO DECEMBER 1981

We propose to publish on Wednesday 24 March a White Paper on Developments in the European Communities covering the period July to December 1981. The report is purely factual and one of a series normally produced every six months.

I should be grateful if you, and those to whom I am copying this letter, would kindly confirm that there is no objection to publication.

Yours ever,

Brian Bowley

B E Bowley
Parliamentary Clerk

cc: D C R Heyhoe Esq
Office of the Lord President of the Council
and Leader of the House
70 Whitehall
LONDON
SW1

P Moore Esq
Government Chief Whips Office
12 Downing Street
SW1

Gwo Pd
Budget Pt 14
Cabinet MAP

Ref. A07402

PRIME MINISTER

Cabinet: Community Affairs

There have been no developments in the Community that call for dicussion this week.

2. OD(E) will have met immediately before the Cabinet to consider the United Kingdom's negotiating approach to the 1982 Common Agricultural Policy price fixing. You might wish the Foreign and Commonwealth Secretary to report briefly on the Sub-Committee's conclusions.

3. Next week the Finance Council takes place on 15 February and the Agriculture Council on 15-16 February.

RTA

ROBERT ARMSTRONG

10 February 1982

Community Budget file

10 DOWNING STREET

From the Private Secretary

9 February, 1982

You wrote to the Prime Minister on 4 February about the United Kingdom net contributions to the EEC budget.

The Prime Minister would be very pleased to meet with you and your co-signatories and I did try to contact your secretary today to discuss a date. The Prime Minister wishes the Foreign and Commonwealth Secretary to be present and a mutually convenient date for him and the Prime Minister would be next Wednesday, 17 February at 1600 hrs at No.10. I wonder whether this date and time would suit you and the others?

Should you wish to contact me here my telephone number is 01-930-4433 and I will keep the time free in the Prime Minister's diary in the hope that this will be convenient.

CAROLINE STEPHENS

The Rt Hon Maurice Macmillan, MP

GRS 460
CONFIDENTIAL [FRAME ECONOMIC]
FM PARIS 091730Z FEB 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 144 OF 09 FEB 82
INFO IMMEDIATE UKREP BRUSSELS ROUTINE ROME BONN
INFO SAVING ATHENS BRUSSELS COPENHAGEN DUBLIN THE HAGUE LUXEMBOURG

30 MAY MANDATE

1. HANCOCK, ACCOMPANIED BY APPLEYARD, CALLED ON ATTALI AND MOREL OF THE ELYSEE THIS AFTERNOON HAVING SPENT THE MORNING WITH ACHARD OF THE SGCI.

2. ATTALI SAID THAT THE BUDGET PROBLEM HAD ARISEN AT A MOST UNFORTUNATE TIME. THE PRESIDENT OF THE REPUBLIC WAS QUITE WILLING TO AGREE TO PARTICIPATE IN TEMPORARY ASSISTANCE TO THE UNITED KINGDOM PROVIDED THAT IT EMBODIED REAL DEGRESSIVITY AND NOT JUST FORMAL DEGRESSIVITY AND PROVIDED THAT IT THEN CAME TO A COMPLETE HALT. BUT HE WAS NOT PREPARED TO PARTICIPATE IN AN ARRANGEMENT WHICH APPEARED TO RESPOND TO A REQUEST BY ONE MEMBER STATE TO CHANGE THE RULES ON WHICH THE COMMUNITY HAD BEEN FOUNDED. IF ONE COUNTRY FOUND THE RULES UNACCEPTABLE IT MUST DRAW THE CONSEQUENCES FROM THIS.

3. HANCOCK POINTED OUT THAT THE UNITED KINGDOM HAD RAISED THE PROBLEM WITH THE ORIGINAL SIX MEMBER STATES AND THE COMMISSION BEFORE IT HAD AGREED TO JOIN THE COMMUNITY. IT HAD ARGUED THAT UNLESS THE PATTERN OF COMMUNITY BUDGET EXPENDITURE CHANGED RADICALLY THE EFFECT OF THE BUDGETARY ARRANGEMENTS ON THE UNITED KINGDOM AFTER THE ACCESSION PERIOD WOULD NOT BE DEFENSIBLE TO THE BRITISH PUBLIC. THE COMMISSION IN REPLY HAD SAID THAT THE ANXIETIES OF THE UNITED KINGDOM WERE UNFOUNDED AND THAT THE BUDGET WOULD SLOWLY BE RECONSTRUCTED SO AS TO REDUCE THE PROPORTION SPENT ON AGRICULTURE AND TO INCREASE THAT SPENT ON NON-AGRICULTURAL POLICIES FROM WHICH THE UNITED KINGDOM WOULD BE BOUND TO BENEFIT. BUT THE COMMISSION HAD GONE ON TO SAY THAT SHOULD AN UNACCEPTABLE SITUATION OCCUR THE INSTITUTIONS OF THE COMMUNITY WOULD TAKE ACTION TO PUT IT RIGHT. THIS ASSURANCE HAD BEEN FORMALLY ENDORSED BY ALL SIX MEMBER STATES INCLUDING THE GOVERNMENT OF THE FRENCH REPUBLIC. IT HAD BEEN REPORTED TO THE BRITISH PARLIAMENT AS ONE OF THE UNDERSTANDINGS ON

 / WHICH THE

WHICH THE UNITED KINGDOM DECIDED TO JOIN THE COMMUNITY. IN THE EVENT, OF COURSE, OUR FEARS HAD PROVED JUSTIFIED AND THE COMMUNITY, INCLUDING THE FRENCH GOVERNMENT OF THE DAY, HAD RECOGNISED THIS IN THE 30 MAY AGREEMENT. THERE WAS NO POSSIBILITY OF GOING BACK ON THESE EVENTS AND THE BRITISH GOVERNMENT COULDN NOT THEREFORE VIEW THE MATTER IN THE SAME LIGHT AS THE FRENCH PRESIDENT.

4. ATTALI LOOKED THOUGHTFUL AND SAID THAT HE RECOGNISED THAT WE WERE FACING A VERY DELICATE SITUATION. HE SUGGESTED THAT HE SHOULD HAVE A PRIVATE WORD WITH SIR ROBERT ARMSTRONG ABOUT THIS IN THE MARGINS OF THE SHERPAS MEETING IN PARIS ON 27/28 FEBRUARY. IT MIGHT SUBSEQUENTLY BE USEFUL ON THE SAME OCCASION FOR HIM TO ARRANGE A MEETING WITH HIMSELF, FOR SIR ROBERT ARMSTRONG, SCHULMANN AND BERLINGUER TO DISCUSS THE MATTER INFORMALLY AND IN TOTAL CONFIDENCE.

ADVANCE COPIES:
PS/PUS, BRIDGES, HANNAY, SPRECKLEY (FCO)
COUZENS, LITTLER, MRS HEDLEY-MILLER (HM TREASURY)
ARMSTRONG, ELLIOTT (CABINET OFFICE)

FCO PLEASE PASS SAVING TO ALL

HIBBERT

[REPEATED AS REQUESTED]
[ADVANCED AS REQUESTED]

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File 82

5 February 1982

I am writing on behalf of the Prime Minister to thank you for the letter which you and a number of colleagues in the House s sent to her on 4 February, about the dispute on UK net contributions to the European Community Budget.

I will place this before the Prime Minister at once and you will be sent a reply as soon as possible.

MAP

The Rt. Hon. Maurice Macmillan, M.P.

Caroline

PC now arrange in consultation w. Ian, John + FCO.

1.

MAP 8/2.

PRIME MINISTER

cc: Mr. Gow
Mr. Coles

Maurice Macmillan and a number of Backbench colleagues want a meeting about the political consequences of the prolongation of the Community budget dispute.

Would you want a Foreign and Commonwealth Minister with you for this meeting? If the Minister had to be Lord Carrington, the meeting could not take place next week (he is back for Thursday but you leave for a tour that afternoon). You are likely to be in the House for several Three Line Whips earlier in the week: we could, for instance, get them in at 1830 on Wednesday, before the 1900 vote, and perhaps field Mr. Hurd if you want a colleague present.

MT

I should prefer to wait until Lord Carrington is returned.

5 February 1982

IMMEDIATE

ADVANCE COPY

PS
PS/LPS
PS/Mr Hurd
PS/PUS
Mr Ballard
Mr Hannay
Ad/ECD(1)
Mr Hancock) Cabinet
Mr Elliott) Office
Mr Andrews MAFF
Mr Littler HM Treasury
No 10, D.S.

(+10)

ECFO 008/04

00 FCO

00 BANGKOK

PP PARIS

GR 220

CONFIDENTIAL
FM UKREP BRUSSELS 041246Z FEB 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 428 OF 4 FEBRUARY 1982
AND TO BANGKOK (FOR SECRETARY OF STATE)
INFO PRIORITY BRUSSELS PARIS

MIPT: 30 MAY MANDATE

1. IN THE COURSE OF CONVERSATION TINDEMANS MADE SOME REVEALING REMARKS ABOUT CHEYSSON AND THORN. IT SEEMS IMPORTANT TO OUR RELATIONS WITH HIM NOT TO PASS THEM ON.

2. HE SAID THAT CHEYSSON HAD BEHAVED MOST PECULIARLY ON 25 JANUARY. HE HAD BEEN JUMPY FROM THE BEGINNING AND HAD CLEARLY BEEN GIVEN A VERY DIFFICULT TIME AT THE ELYSEE BETWEEN 14/15 JANUARY AND THAT MEETING. DURING THE LONG PAUSE AFTER LUNCH ON 25 JANUARY, HE HAD SAID TO TINDEMANS BILATERALLY THAT TINDEMANS MUST CLOSE THE MEETING IMMEDIATELY. IF IT WENT ON, HE, CHEYSSON, WOULD HAVE NO CHOICE BUT TO MAKE STATEMENTS WHICH WOULD SET THE WHOLE NEGOTIATION BACK AND CREATE A CRISIS. THIS WAS THE ORIGIN OF TINDEMANS' PROPOSAL TO KEEP THE NEGOTIATION ALIVE BY SOUNDINGS BY THE TWO PRESIDENTS.

3. TINDEMANS WAS VERY CRITICAL OF THORN. HE COULD NOT UNDERSTAND WHY HE HAD FAILED TO DEFEND OR TO PROMOTE THE COMMISSION'S OWN PROPOSALS OR HIS OWN PAPER OF EARLY JANUARY. HE THOUGHT THAT THORN HAD MADE A SERIOUS ERROR BY PUTTING FORWARD WHAT WAS IN

~~PROPOSALS OR HIS OWN PAPER OF EARLY JANUARY.~~ HE THOUGHT THAT THORN HAD MADE A SERIOUS ERROR BY PUTTING FORWARD WHAT WAS IN FEFFECT A ONE YEAR SOLUTION. (ORTOLI TOLD ME YESTERDAY THAT THIS IDEA WAS STILL FLOATING AROUND IN THORN'S MIND.) TINDEMANS IMPLIED THAT THORN WANTED TO GET THE CREDIT FOR PRODUCING SOLUTIONS WITHOUT MAKING THE EFFORT ACTUALLY TO DO SO.

FCO ADVANCE TO:
FCO - HANNAY
CAB - HANCOCK: ELLIOTT
MAFF - ANDREWS
TSY - LITTLER

BUTLER

NNNN

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FCO
PS
PS/LORD PRIVY SEAL
PS/MR HURD
PS/PUS
MR BULLARD
MR HANNAY
LORD BRIDGES

~~PRESIDENT CLERK~~
HD/ECD I (3)
HD/NEWS
HD/ERD
HD/.....
HD/.....

PLUS FCO
Mr de Fonblanque ECD(1)

CABINET OFFICE
MR D HANCOCK
MR D M ELLIOTT
MR RHODES
MR S WENTWORTH

D.O.T.

PLUS OGDS
No 10 D.S. 1

H M TREASURY
SIR K COUZENS
MR ASHFORD
MR HANCOCK
MR EDWARDS
Mr Littler

M.A.F.F.
SIR B HAYES
MR G STAPLETON
Mr Andrews

MR P KENT
H M CUSTOMS & EXCISE
1

CONFIDENTIAL
FRAME ECONOMIC
FM UKREP BRUSSELS 041245Z FEB 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 427 OF 4 FEBRUARY 1982
AND TO BANGKOK (FOR SECRETARY OF STATE)
INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG ATHENS

YOUR TELNO 100: 30 MAY MANDATE

1. I SAT NEXT TO TINDEMANS AT DINNER AND HAD A LONG TALK WITH HIM. HE IS STILL FEELING HIS WAY FORWARD UNSURE HOW TO PROCEED. HE IS MUCH PREOCCUPIED WITH HIS GOVERNMENT PROBLEMS AT HOME, HIS OTHER PRESIDENCY RESPONSIBILITIES AND HIS FORTHCOMING FOREIGN TRAVEL (MADRID (FOR CSCE) 9 AND 10 FEBRUARY, WASHINGTON 15-20 FEBRUARY, AND JAPAN 26 FEBRUARY-3 MARCH). APART POSSIBLY FROM A FEW CONVERSATIONS IN MADRID, HE DOES NOT SEEM TO SEE HIMSELF DOING MUCH DURING FEBRUARY.

HE DOES NOT SEEM TO SEE HIMSELF DOING MUCH DURING FEBRUARY. BUT WHILE BAFFLED BY THE DIFFICULTIES, HE SEEMS VERY CONSCIOUS OF THE NEED TO GET THE NEGOTIATION GOING AGAIN.

2. HE IS STILL HANKERING AFTER THE GUIDELINES APPROACH, SUGGESTING THAT HE MIGHT PUT A PACKAGE OF PROPOSALS ON THE THREE ISSUES TO GOVERNMENTS FOR ACCEPTANCE OR REJECTION AS A PACKAGE. HE SAID HE WAS LOOKING FOR A NEW ELEMENT TO ADD AND INVITED IDEAS.

3. ON SUBSTANCE HE SEEMED QUITE SOLID ON DURATION AND DEGRESSIVITY, ''I BELIEVE 5 YEARS IS RIGHTS AND SHALL TRY TO GET IT''. I DID NOT GET THROUGH TO HIM ON MILK, BUT WENT OVER THE GROUND WITH THUYSBAERT THIS MORNING WHO ASSURED ME THAT THE BELGIANS WERE FULLY AWARE OF UK, DUTCH AND DANISH OPPOSITION TO DIFFERENTIATED LEVIES.

4. TINDEMANS SEEMED RECEPTIVE TO THE SUGGESTION THAT WORK ON FIGURES SHOULD PROCEED IN PARALLEL AND, I THOUGHT, AGREED TO SUPPORT OUR REQUEST TO THE COMMISSION FOR A VERY EARLY AND DISCREET CIRCULATION OF THE ESSENTIAL FIGURES SO THAT DISCUSSIONS CAN CONTINUE ON AN AGREED FACTUAL BASIS. BUT THUYSBAERT SAYS THAT TINDEMANS, WHILE AGREEING THAT OUR APPROACH IS LOGICAL, DOES NOT WANT TO GET LOCKED INTO ANY PARTICULAR PROCEDURE AT PRESENT.

5. SEE ALSO MIFT (NOT TO ALL).

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

BUTLER

NNNN

HOUSE OF COMMONS
LONDON SWIA OAA

R5

To
The Rt Hon Margaret Thatcher MP
Prime Minister

4th February 1982

Dear Margaret

We write, as committed supporters of the Government's European policy, to express some misgivings about possible political consequences of the dispute about the United Kingdom net contributions to the EEC budget.

We do not believe that it is going to be possible to bring off a second victory such as you won on May 30 1981, if only because of the insignificant net contribution which, in the event, the UK had to make last year. We see a double danger in this situation.

The first is that expectations will build up in public opinion here which cannot be fulfilled. The subsequent let-down could do us immediate electoral damage.

The second is that, in the inevitably bruising fight to get a reasonable budget settlement, Ministers will be obliged to say some harsh things about our EEC partners, and perhaps about the institutions of the EEC. Even if the fight results in a better settlement than we would have got otherwise, the whole process will inevitably have a serious impact on the EEC's present relatively high standing in public opinion. This will mean that we, as a Party committed to EEC membership, will go into the Election with a policy which we ourselves have helped to make unpopular.

In view of the very small proportion of public expenditure which even a high EEC budget contribution represents, and its insignificance in comparison with the volume of trade at risk, we believe that we ought to be very careful indeed how we handle this issue.

Would you be prepared to receive the signatories of this letter to discuss the matter?

Yours sincerely

Harold Macmillan
Anthony Meyer
Julian Critchley
Thelma Fayth
Ian Dixon
Robin Squire
Paul Hawkins
Eldon Griffiths
Tim Rathbone
Kenneth Carlisle
Ian H. Chow
David Knox
Brandon Rhys Williams

SUNDAY TIMES
7 FEB 1982
Cutting dated ....., 19

THE SUNDAY TIMES

Time to retreat

"MY STRENGTH is as the strength of ten", said Tennyson's Sir Galahad, "because my heart is pure". His confidence, it appears, is shared, arithmetic notwithstanding, by Mrs Thatcher and Lord Carrington when it comes to dealing with the Common Market. To them, Britain's right to a permanent, guaranteed and substantial cut in her EEC budget contributions is so transparently obvious that it precludes all argument. If others fail to agree then they are patently out of step; but with a little patience and perhaps just a touch of cold steel they will shuffle back into line.

Unhappily, as meeting follows abortive meeting and tempers shorten to snapping point, this version accords less and less with reality. When the foreign secretary reports on the latest bickering session, he agrees, somewhat irascibly, that on a growing number of key issues Britain is now in a nine-to-one minority with her European partners, but he refuses to attach serious importance to the matter. He dismisses the danger that there could, this time, be no agreement at all; and blithely ignores the poisonously negative effect of the unending budget wrangle on the community.

At Dublin in 1980, the prime minister's aggressive tactics won a substantial victory, reducing Britain's contributions by well over a billion pounds. Indeed, thanks to luck with the weather and marginal improvements in the working of the much-loathed Common Agricultural Policy, our actual payments last year dropped to a mere £55 million. However, that produced only a two-year respite. Now No. 10 and the Foreign Office have returned to the charge, with demands for a firm deal lasting not less than five years, and an absolute promise that whatever happens Britain could always rely on fair and equitable refunds. After three rounds of recrimination and hassle, the other nine set their limit at four years and a formula such that the refunds would automatically decrease or "degress" each year. Lord Carrington turned this down flat, threatened to block all progress on the proposal for a 9 per cent increase in food prices, which is dynamite in most of Europe's farm-dominated parliaments, and expressed his "hope" that solutions would be found to these problems.

The insouciant British view seems to be that it just needs a bit of judicious bullying and these foreigners will shape up. But the foreigners themselves are increasingly aghast and appalled at such tactics. They are willing to offer a deal. Had Mrs Thatcher been prepared to settle for a two-year rebate, taking her well up to the 1984 election deadline, she could have done almost as well as she did in Dublin.

Maybe that is what she is really playing for, in which case the episode will pass away as yet another bitter-tasting episode in the acrimonious Brussels story. But maybe she means what she says, in which case the whole enterprise could well be heading for the rocks. Lord Carrington, asked "What happens if our partners don't agree . . . does the community just break up?", answered that the question was "premature." But premature is a long way from unthinkable, and in the meantime the Brussels atmosphere grows so venemous that it can only justify the jibes of the advocates of withdrawal. It cannot be that which Mrs Thatcher truly wants. The time for retreat from an untenable position is getting ominously short.

Mr Hogg
Mr de Fonblanque

– PU/2
DUS/B
MT
MW/4
PMW/2
PS/HOLMES

Conservative Central Office

NEWS SERVICE

Release time: 18.30 hours/THURSDAY, 4th February 1982 76/82

Extract from a speech by the Rt Hon Douglas Hurd CBE MP (Mid Oxon), Minister of State for Foreign and Commonwealth Affairs, speaking to a Conservative Political Centre Committee Meeting, in the House of Commons, on Thursday, 4th February 1982

We are once again entering a sticky patch in our dealings inside the European Community. British Ministers will need to work toughly and energetically for Community policies which make sense for Britain and for the long-term interests of Europe.

It is an inevitable and continual part of Community life that there should be hard arguments about the allocation of resources. There are important interests at stake for every member state. Similar arguments occur in any federal system - look at the experiences of Canada, Australia and West Germany. Look now at the fierce arguments here between central government and local authorities. The difference is that the Community is not a federal system and the nation states are not subordinate to the centre. Each of them has in effect a veto on any solution. That is why inevitably solutions come slowly and after hard argument. Since there is no prospect of fundamental change in the constitution of the Community we have no alternative but to learn by experience the discipline of reaching unanimous agreements on important matters and then working together to carry them through.

There has been a good deal of progress under the three chapters of the mandate laid down when a temporary solution to the British budget problem was reached in 1980. Under the first chapter there is agreement that the Community should press ahead in developing non-agricultural policies. Some of these cost money, for example the region and social funds which are of particular importance at a time of high unemployment. Other policies cost nothing - for example removing distortions of the internal market by allowing better competition in insurance and air fares. We are keen to press ahead on all these fronts as a part of a general agreement on the way our Community should go.

The second chapter is about agriculture and here, too, there has been some progress. It is increasingly understood that the Community could not afford to give open-ended encouragement to the production of surpluses. True, the Community has had a good year in which the butter mountain has disappeared and the cost of the agricultural policy has been much less than expected. But we cannot rely on world prices producing this result as a matter of course, and one good year does not give us an excuse for failing to tackle the underlying problem.

The third and most difficult chapter concerns the burden of the Community budget. No-one now rejects our argument that Britain must have substantial compensation for the fact that Community spending is still so heavily biased toward agriculture. The argument is how long such compensation should last and whether it should be arbitrarily scaled down regardless of what happens to Community policies. No-one can tell how long it will take to shift the balance of Community spending in such a way that all member countries get a reasonable deal and none faces an unacceptable burden. Since the timing of this is unpredictable it is clearly not logical to argue that there should be an early scaling down of compensation for Britain regardless of the progress made.

These then are the issues,and I do not myself doubt that after much argument and many dramatic headlines an answer will be found. We shall certainly work hard for a sensible answer. Our policy is to make a success of Community membership. Unlike the last Government we do not use arguments within the Community as a cover for sniping at the whole concept of Europe. It is encouraging that we have made some progress recently in showing people in this country that membership is in Britain's interest. The opinion polls suggest a much more even balance of view on this subject than a year or so ago. The Labour Party are getting into a confused state as to exactly how they should present their policy. They realise the growing impact of the

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the argument that withdrawal from the Community could worsen our trade balance and throw even more people out of work. So they are beginning to hedge and look around for compromise solutions.

No-one supposed that the building of Europe was going to be easy. In fact, it has been a slower business than some hoped. But if one looks at the turmoil in Poland, the uncertainties in the Middle East and the questions which bedevil international trade, then it is abundantly clear that our British interest and our hope of world influence lies in working as closely as possible with our partners in Europe.

END

PRIME MINISTER

Community Budget

I attach the text of the Lord Privy Seal's statement to the House this afternoon.

The House was quite full, but this did not excite much attention. Mr. Heffer, leading for the Opposition, argued that the money involved was relatively little, but that the Assembly had exceeded its powers, and there was therefore an important issue of principle. The Opposition reserved its position, and might wish to press for a change.

Subsequent questioning was dominated by the anti-marketeers who wished to take the opportunity to cut the European Assembly down to size. There was little that was new, but it is perhaps worth recording Dennis Skinner's comments that this extra money was scandalous when set aside the cuts in social services, etc., demanded by the Government. Closing for the Opposition, Guy Barnett asked whether the Government considered it had legal authority to draw money to make these payments, and what the Government would do if the House voted down the estimates provision. But, over all, the exchanges produced nothing new.

MAP

3 February, 1982.

TO BE CHECKED
AGAINST DELIVERY

THE EUROPEAN COMMUNITY BUDGET 1982

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.

/As

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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INFO UKREP BRUSSELS PARIS

30 MAY MANDATE: GERMAN ATTITUDES

1. ON BOTH COMMUNITY AND NATIONAL GROUNDS THE GERMANS ARE DISAPPOINTED AT THE FAILURE OF THE MANDATE DISCUSSIONS. ALTHOUGH THEY THOUGHT ALL ALONG THAT WE HAD SET OUR SIGHTS UNREALISTICALLY HIGH, THEY BELIEVE THAT LIKE THEM WE WERE WORKING FOR THE COMMUNITY AS WELL AS FOR OUR OWN INTERESTS AND EVEN IN JANUARY THEY HAD HOPES THAT AT THE LAST MINUTE IT WOULD BE POSSIBLE TO GET AGREEMENT ON GUIDELINES. THEY DO NOT AGREE WITH US ON DEGRESSIVITY (SEE PARA 4 BELOW), THOUGH THEY UNDERSTAND OUR POINT. BUT WHILE RECOGNISING THAT WE ARE ISOLATED ON THAT ISSUE THEY ARE NOT DISPOSED TO BLAME US FOR THE FAILURE OF THE NEGOTIATIONS. THEY RECOGNISE THAT THOUGH A SOFTER BRITISH LINE MIGHT HAVE HELPED, THE FRENCH WERE ALSO VERY TOUGH. BESIDES, FROM THE NARROW POINT

RECOGNISE THAT THOUGH A SOFTER BRITISH LINE MIGHT HAVE HELPED, THE FRENCH WERE ALSO VERY TOUGH. BESIDES, FROM THE NARROW POINT OF VIEW OF GERMANY'S MINIMUM REQUIREMENTS, THE MANDATE DISCUSSIONS WERE A SUCCESS, AND ONE TO WHICH CONSISTENT BRITISH SUPPORT FOR GERMAN DEMANDS MADE AN IMPORTANT CONTRIBUTION. THE GERMAN QUOTE PROBLEM UNQUOTE WAS NOT ONLY RECOGNISED BUT THERE SEEMED TO BE GENERAL AGREEMENT THAT SOMETHING HAD TO BE DONE ABOUT IT.

2. TURNING TO THE FUTURE THE GERMANS SEE THAT THEY AND WE CONTINUE TO HAVE IMPORTANT INTERESTS IN COMMON: A COMMON DESIRE TO KEEP EXPENDITURE, ESPECIALLY AGRICULTURAL EXPENDITURE, IN CHECK AND A CONCERN TO WORK FOR RENEWAL WITHIN THE COMMUNITY. BY CONTRAST THE MANDATE NEGOTIATIONS HAVE SHOWN ONCE AGAIN THAT, NOTWITHSTANDING THEIR IDEAS FOR QUOTE RELANCE UNQUOTE AND THE ESPACE SOCIAL, THE FRENCH ARE MORE INTERESTED IN HANGING ON TO THE PAST THAN WORKING FOR THE FUTURE AND MEANWHILE GIVE CONSIDERABLE CAUSE FOR CONCERN BY THEIR ACTIONS ON EG. ITALIAN WINE AND RECONQUERING THEIR OWN INTERNAL MARKET.

3. THE GERMANS WOULD NOT LIKE TO ABANDON THE SEARCH FOR AGREEMENT ON GUIDELINES. OUR OWN IMPRESSION IS THAT FOR THE MOMENT, AT ANY RATE, THEY FEEL EXHAUSTED AT A LOSS AND QUITE UNDECIDED ABOUT THE NEXT MOVE.(SEE UKREP TELNO 394). MOST OFFICIALS WE HAVE TALKED TO CLAIM TO BE BAFFLED (RATLOS) ABOUT WHAT TO DO NEXT. THE ONLY CONCRETE SUGGESTION WE HAVE HEARD IS THAT IF, AS THEY EXPECT, WE NOW USE THE PRICE FIXING TO SECURE PROGRESS ON THE BUDGET ISSUE WE SHOULD, FOR PRESENTATIONAL REASONS, MAKE NO DIRECT LINK BUT USE THE TRADITIONAL ARGUEMENTS ABOUT THE INTEREST OF THE BRITISH CONSUMER AND THUS EXPOSE OURSELVES LESS TO THE CHARGE OF BEING UNCOMMUNAUTAIRE.

4. DURING OUR CONTACTS WITH THE GERMANS OVER THE MANDATE DISCUSSIONS, ESPECIALLY WHEN THE SPOT LIGHT FOCUSSED ON DEGRESSIVITY, WE ENCOUNTERED TWO AREAS OF DIFFICULTY IN TRYING TO GET GERMAN SUPPORT FOR OUR POSITION. MANY GERMAN OFFICIALS DO NOT BELIEVE THAT OUR RESPONSIBLE APPROACH TO EXPENDITURE GENERALLY AND AGRICULTURAL EXPENDITURE IN PARTICULAR WOULD PERSIST IF WE WERE NO LONGER NET CONTRIBUTORS TO THE BUDGET. WE WOULD, THEY CLAIM, HAVE NO INCENTIVE, AND THEY ARE NOT PERSUADED BY REFERENCE TO THE SUBSTANTIAL NON-BUDGETARY RESOURCE TRANSFERS THAT TAKE PLACE UNDER THE CAP TO THE DETRIMENT OF THE UK AS THE FUNDAMENTAL REASON FOR OUR CONCERN. THE SECOND, RELATED POINT, IS THAT THE GERMANS ATTACH VALUE TO THE ACQUIS IN THE SHAPE OF THE EXISTING POLICIES AND THEIR OPERATION. THEY FEEL WE SHOULD NOT BE FULLY EXONERATED FROM SHARING THESE HISTORIC BURDENS. THEY ACCEPT THAT THE INTEGRATION

THEIR OPERATION. THEY FEEL WE SHOULD NOT BE FULLY EXONERATED FROM SHARING THESE HISTORIC BURDENS. THEY ACCEPT THAT THE INTEGRATION OF THE UK ECONOMY INTO THE COMMUNITY HAS GONE FAR AND FAST BUT SEEM UNABLE TO FACE UP TO THE FACT THAT FULLER INTEGRATION WOULD STILL NOT SOLVE OUR BUDGETARY PROBLEMS. RATIONAL DISCUSSION IS RARELY POSSIBLE ON THIS POINT: GERMAN IDEAS ARE CONFUSED, ILLOGICAL AND WRAPPED UP IN A PRIMITIVE BELIEF IN THE VIRTUES OF THE ORIGINAL COMMUNITY. IT SEEMS TO ME IMPORTANT THAT WE SHOULD GO ON TRYING TO CONVINCE THE GERMANS THAT WHAT WE SAY ON THESE TWO POINTS IS TRUE.

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TAYLOR

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PRIME MINISTER

Cabinet: Community Affairs

No Councils have met since last week's Cabinet and there have been no major developments on the mandate.

2. You might wish the Lord Privy Seal to bring the Cabinet up to date on the dispute with the European Parliament on the 1982 Community budget. With your agreement it was decided that the United Kingdom should pay the full contribution due in February, along with all our partners, in order to secure agreement in Brussels on a Council decision to initiate proceedings against the Parliament and the Commission in the European Court. The Council will also open discussions with the Parliament in case a political solution can be found by this means. As the Lord Privy Seal explained to the House on 3 February, payment in full will call for separate supplementary provision in respect of our contribution to that part of the adopted budget which we regard as illegal; if the dispute is resolved in the Council's favour we shall get our money back.

RTA

ROBERT ARMSTRONG

3 February 1982

PART 13 ends:-

Hansard extract 3 feb.

PART 14 begins:-

RTA to PM 3/2/82

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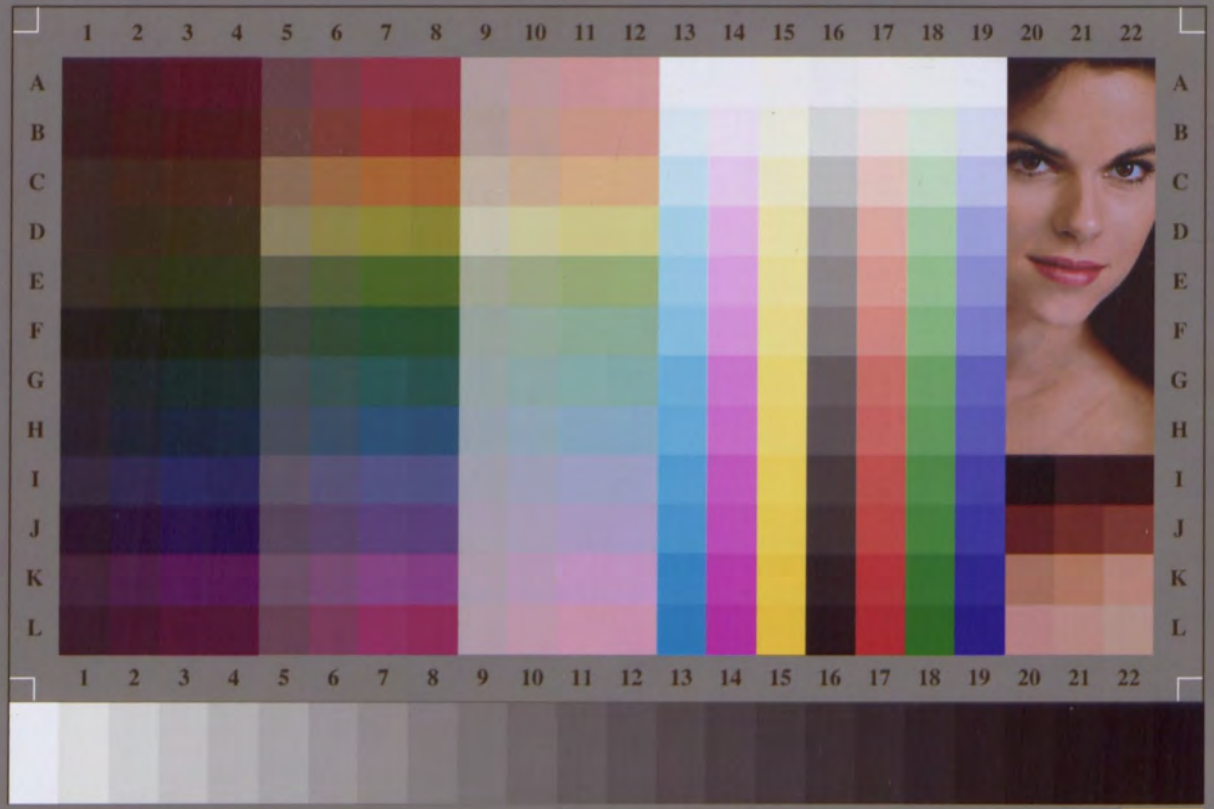

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