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PREM 19/439



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THE COMMUNITY BUDGET

EUROPEAN Policy

Developments in the European Community.

PART 1: MAY 1979

PART 15: MARCH 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>22.3.82</del>							
<del>24.3.82</del>							
<del>28.3.82</del>							
30.3.82							
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14.5.82							
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PART 15 ends:-

SofS Agriculture to PM + att 14.5.82

PART 16 begins:-

Hancode to ASC Q2 02572.



TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
C(82)5	23.3.82
CC(82) 12th Conclusions, Minute 3	25.3.82
EQO(82)52	25.3.82
EQS(82)8	30.3.82
CC(82) 13th Conclusions, Minute 3	1.4.82
CC(82) 19th Conclusions, Minute 4	22.4.82
CC(82) 20th Conclusions, Minute 2	28.4.82
CC(82) 24th Conclusions, Minute 3 (extract)	6.5.82
CC(82) 25th Conclusions, Minute 2	11.5.82
CC(82) 26th Conclusions, Minute 3	13.5.82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 20 September 2012

PREM Records Team





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

From the Minister

CONFIDENTIAL

PRIME MINISTER

14 May 1982

*Oliver Bone*

*A.J.C. 17/5*

30 MAY MANDATE: UK POLICY DURING THE NEXT PHASE

*f.a.*

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

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

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

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

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

*Peter Walker*

PETER WALKER



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

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

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

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



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

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

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



14 MAY 1982







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Qz.02571

MR COLES

cc: Private Secretaries to:

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

AR 1/5

p.a.

30 MAY MANDATE: UK POLICY DURING THE NEXT PHASE

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

*see below*

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

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

D.H.

D J S HANCOCK

14 May 1982

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OO ROME DESKBY 141330Z

GRS 593

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FRAME ECONOMIC

DESKBY ALL POSTS 141330Z

FM FCO 141130Z MAY 82

TO IMMEDIATE BRUSSELS

TELEGRAM NUMBER 113 OF 14 MAY

AND TO IMMEDIATE DESKBY UKREP BRUSSELS AND EC POSTS

MIPT: 30 MAY MANDATE

BEGINS

1. THANK YOU FOR THE MESSAGE YOU AND GASTON THORN SENT ME ON 11 MAY ABOUT THE NEXT STAGE OF THE MANDATE NEGOTIATIONS.

I AM VERY CONSCIOUS OF THE AMOUNT OF TIME AND EFFORT YOU ARE BOTH DEVOTING TO THIS INTRACTABLE SUBJECT AND GRATEFUL TO YOU FOR IT. I ENTIRELY AGREE WITH YOU THAT WE MUST NOT RELAX OUR EFFORTS TO SETTLE THE BRITISH BUDGET AND RELATED PROBLEMS.

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

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

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

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

ENDS

PYM

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FRAME ECONOMIC  
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Qz.02571

MR COLES

cc: Private Secretaries to:

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

30 MAY MANDATE: UK POLICY DURING THE NEXT PHASE

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

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

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

D.H.

D J S HANCOCK

14 May 1982

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Foreign and Commonwealth Office

London SW1A 2AH

14 May 1982

Dear John,

ADL 12/5  
p.a.

30 May Mandate: UK Policy During the Next Phase

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

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

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

He would like the paragraph amended to read as follows:

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

/I am

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

*Yours ever.*

A handwritten signature in cursive script, appearing to read 'Francis Richards'.

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street

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Personal



*With the compliments of*

THE PRIVATE SECRETARY

John ~~AD~~  $\frac{17}{5}$  h-a-

Sent to discharge Sir M. Butler's promise\*. I have not circulated this more formally to you (though half Whitehall seems to have it) in view of the silly charge from Thom about Mr Walker.

FOREIGN AND COMMONWEALTH OFFICE  
SW1A 2AH

\* para 2 of note





Private Secretary

MESSAGE FROM M THORN

1. I attach a record of a telephone conversation this morning between Sir M Butler and M Thorn's Chef de Cabinet.
2. You will see that Sir M Butler undertook to convey to the Prime Minister and Mr Pym M Thorn's message that he was at their disposal at any time on the EC budget problem.

*N K J Witney*

N K J Witney  
European Community Department  
(Internal)  
E120 233 4947

13 May 1982

cc: PS/Mr Hurd  
PS/PUS  
Sir M Butler  
Lord Bridges  
Mr Hancock, Cabinet Office  
Mr Littler, Treasury  
Mr Andrews, MAFF  
Mr Hannay  
Mr Spreckley  
Mr de Fonblanque





RECORD OF TELEPHONE CONVERSATION BETWEEN SIR MICHAEL BUTLER AND  
M DURIEUX, CHEF DE CABINET TO M THORN: 13 MAY

1. M Durieux telephoned Sir M Butler on M Thorn's instructions to convey a message from M Thorn. He said that the "violent language" employed by Mr Walker at the Agriculture Council had not been much appreciated. Sir M Butler replied that efforts by the Presidency and the Commission on 2 occasions during the Council to pretend that a Council decision had been taken when we had not consented to it had not been much appreciated either. M Durieux denied that there was any hostility towards the UK behind this. The Commission's decision yesterday formally to propose the extension of EC sanctions in connection with the Falkland Islands crisis was proof of what he said. Sir M Butler replied that the Commission's decision had been very much appreciated by us.
2. M Durieux emphasised that the Commission was trying to promote agreement on the budget. They stood ready to help at any time. He asked that the Prime Minister and Foreign Secretary be told that M Thorn was at their disposal at any time. Sir M Butler undertook to convey this message. He added that he felt obliged to point out that the Presidency and the Commission had a vital role to play in Community negotiations. Their duty was to propose compromise solutions, and not, as had happened at Villers le Temple and afterwards, to take sides.





Prime Minister

①

Subject to views of Ministerial  
colleagues, agree to recommendation  
in para. 3 and letter to Thorn  
and Tindemans at Annex B?

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MR COLES

cc: Private Secretaries to:

*Muel* *mt.* A.J.C. 13/5.

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

30 MAY MANDATE: UK POLICY DURING THE NEXT PHASE

The following papers are attached:-

- (i) An agreed note by Treasury, FCO, MAFF and Cabinet Office officials on the proposal by Monsieur Tindemans and Monsieur Thorn that the 30 May Agreement now be applied to a third year in order to avoid the current crisis in the Community.
- (ii) The Minister of Agriculture's letter to the Foreign Secretary of 12 May about the way in which the United Kingdom should react if either a majority vote is forced through, despite the Luxembourg compromise, or the Commission fills a hiatus in marketing years with the new price proposals.
- (iii) The record of Mr Hancock's talk with Monsieur Attali in Paris on 12 May.

Next Events

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

- (i) The reply to be sent to Monsieur Thorn and Monsieur Tindemans.
- (ii) The Foreign Secretary's meeting with Monsieur Cheysson tomorrow afternoon.
- (iii) The Prime Minister's meeting with Monsieur Mauroy on Saturday.





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- (iv) Sir Robert Armstrong's meeting with the Personal Representatives of the Heads of State and Government of France, Germany, Italy, Belgium and Monsieur Thorn's Chef de Cabinet at St Cloud on Saturday.
- (v) The emergency meeting of Foreign Ministers on the budget which may be called on Sunday. (This is not certain.)
- (vi) The Prime Minister's meeting with President Mitterrand on Monday.

The third year of the 30 May Agreement

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

- (i) at the various relevant meetings in the next few days UK representatives should take the line that the British budget problem will have to be solved sooner or later and it will not necessarily be any easier to solve later than it is now. We should therefore continue to urge the other member states and the Commission to negotiate for a solution lasting 4 or 5 years based on objective criteria.
- (ii) If it becomes clear that a multi-year solution could only be obtained on terms unacceptable to the Government (and given the risk that the farm price package may somehow be forced through despite our veto) then we should be prepared to negotiate a satisfactory application of the 30 May Agreement to the third year as an interim measure before negotiations on the longer-term solution are resumed.
- (iii) To reduce the risk of the type of reaction by the rest of the Community described by the Minister of Agriculture in Cabinet this morning, the Foreign Secretary should send a firm but conciliatory reply to Messieurs Thorn and Tindemans. The recommended draft is attached at Annex B to the note by officials.





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- (iv) In any negotiations for the application of the 30 May Agreement to 1982, the UK objectives should be as follows:-
- (a) The refund for 1982 to be calculated from the Commission estimate of our unadjusted net contribution for that year. (The point of this is that the lowest conceivable Commission estimate is 1500 mecu. Two-thirds of this is well above the 800 mecu figure on which the Germans are now dug in.)
  - (b) A risk sharing formula in the form applied for the year 1980; but we should accept that it should extend downwards as well as upwards.
  - (c) In the last resort if (b) above were unobtainable, we should be prepared to accept the 1981 formula, again extended downwards as well as upwards.
  - (d) We should insist on a formal endorsement by all member states of the deadline suggested in the two Presidents' letter for securing a longer-term agreement - namely before the end of 1982.
  - (e) We should accept no condition that would in any way prejudice UK views on the nature of the longer-term solution. We should not accept any new constraint on our freedom of action in future farm price negotiations.
- (v) Our aim should be to fight off the over-payment issue and to get the other member states to agree to a one year solution on the conditions listed above without any reference to it. We may not succeed in this aim. Ministers may therefore have to re-consider this point if it seems critical to securing an otherwise acceptable deal.





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Questions posed in the Minister of Agriculture's letter

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

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

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

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

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

Contingency Planning

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

Procedure

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





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

D.H.

D J S HANCOCK

13 May 1982

Cabinet Office

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THIRD YEAR OF REFUNDS UNDER THE 30 MAY 1980 AGREEMENT

Note by Officials

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

The Thorn/Tindemans message

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

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

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

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

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

A third Year of Refunds

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

- (i) Because of its legal basis in the 30 May Agreement it would have to relate our compensation to our net budget contribution as a whole - a key concept which the others have been trying to suppress in the negotiations on a longer term solution.
- (ii) It would be difficult for the others to argue that the basic rate of compensation should be anything less than 66% of our unadjusted net contribution - an improvement on the 800 mecu lump sum previously on offer.
- (iii) It would bring in the concept of risk sharing, and get away from the lump sum approach.



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

7. There would also be clear disadvantages:-

- (i) There would be no way of manipulating the 30 May Agreement to give much more than 66% compensation for our unadjusted net contribution in 1982, and the chances of getting more than 66% over the longer term would be reduced.
- (ii) The leverage of the 1982 price fixing would have been used up. We would have made concessions on small milk producers and Mediterranean agriculture without getting a medium term budget solution in return.
- (iii) There would be no leverage available until the 1983 price fixing and the negotiations could simply drag on. We could face, and would have to resist, pressure to agree now not to use the price fixing lever.
- (iv) The whole argument about our budget contribution would be prolonged and brought closer to the next UK general election.

Possible Financial Consequences of a Third Year Refund

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



Table 1

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

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

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

/Table 2



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Table 2

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

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

Alleged over-payment for 1980 and 1981

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

Approach to risk sharing

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

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

/(ii)



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- (ii) To insist that the marginal compensation rate should be 75% as in the 30 May Agreement.
- (iii) To argue for the 1980 arrangement to be applied on the grounds that it is simpler, less arbitrary, and would be in the interests of the other member states if the Commission's estimate of our unadjusted net contribution proved to be too high.
- (iv) But, if necessary, to be ready to accept the 1981 risk sharing arrangements as a fallback.

Subsequent negotiations on arrangements after 1982

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

Recommendations

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

/(ii)



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- (ii) If it becomes clear that a multi-year solution could only be obtained on terms unacceptable to the Government (and given the risk that the farm price package may somehow be forced through despite our veto) then we should be prepared to negotiate a satisfactory application of the 30 May Agreement to the third year as an interim measure before negotiations on the longer-term solution are resumed.
- (iii) To reduce the risk of the type of reaction by the rest of the Community described by the Minister of Agriculture in Cabinet this morning, the Foreign Secretary should send a firm but conciliatory reply to Messieurs Thorn and Tindemans. The recommended draft is attached at Annex B.
- (iv) In any negotiations for the application of the 30 May Agreement to 1982, the UK objectives should be as follows:-
  - (a) The refund for 1982 to be calculated from the Commission estimate of our unadjusted net contribution for that year. (The point of this is that the lowest conceivable Commission estimate is 1500 mecu. Two-thirds of this is well above the 800 mecu figure on which the Germans are now dug in.)
  - (b) A risk sharing formula in the form applied for the year 1980; but we should accept that it should extend downwards as well as upwards.
  - (c) In the last resort if (b) above were unobtainable, we should be prepared to accept the 1981 formula, again extended downwards as well as upwards.

/(d)



CONFIDENTIAL

- (d) We should insist on a formal endorsement by all member states of the deadline suggested in the two Presidents' letter for securing a longer-term agreement - namely before the end of 1982.
- (e) We should accept no condition that would in any way prejudice UK views on the nature of the longer-term solution. We should not accept any new constraint on our freedom of action in future farm price negotiations.
- (v) Our aim should be to fight off the over-payment issue and to get the other member states to agree to a one year solution on the conditions listed above without any reference to it. We may not succeed in these aims. Ministers may therefore have to re-consider this point if it seems critical to securing an otherwise acceptable deal.

Cabinet Office

13 May 1982



STS 177/82

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

Dear Colleague

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

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

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

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

This formula/



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

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

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

Yours etc

G THORN

L TINDEMANS

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



Draft reply to Messrs Thorn and Tindemans

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

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

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

individually/...



CONFIDENTIAL

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individually, and of the Community as a whole, that this divisive negotiation should be yet further prolonged? These are hard questions to answer in the affirmative. If there is to be such a pause, there would certainly need to be a firm and precise commitment by all of us of the sort you suggest to concluding the negotiations at an early date, and certainly not later than the end of the year. We had a commitment to decide on the 230 May Mandate at the end of last year. The considered view of my government is however that the right course is to continue the negotiations now for a longer-term solution and to bring them to an early conclusion.

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

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



CONFIDENTIAL

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





SECRET

Prime Minister

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(2)

A.J.C. 13/5

Qz.02565

MR COLES

*MC*

cc: Private Secretaries to:

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

30 MAY MANDATE: BILATERAL DISCUSSIONS WITH ELYSEE

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

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SECRET

Nature of the link

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

One year solution

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

Luxembourg compromise

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

/been



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

UK budget problem

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

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



SECRET

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

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

Comment

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

- (i) President Mitterrand does not want a crisis.
- (ii) He has failed to understand so far the full significance of what happened in the Agriculture Council on 10 May.
- (iii) He has more flexibility on the size of our refund than Monsieur Cheysson has needed to reveal in the discussions between Foreign Ministers - the tough line taken by the Germans recently has made it quite unnecessary for the French to negotiate.
- (iv) President Mitterrand would not agree to a solution that looked like a change in the system of financing the Community; he would only contemplate something that looked like a temporary and ad hoc arrangement to help the UK.



SECRET

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

D.H.

D J S HANCOCK

13 May 1982





The National Archives

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Ref. A08390

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary reported to Tuesday's Cabinet on the budget discussions at last weekend's informal Foreign Ministers' meeting, and you may be discussing our next steps on the budget with the Ministers directly concerned on Friday.

2. You will wish the Minister of Agriculture to report on the 10-11 May Agriculture Council. As expected, a final Common Agricultural Policy price package was put forward which attracted the support of the nine other member states. The United Kingdom was accordingly pressed to break the link with the budget, and invoked the Luxembourg compromise to avoid a vote being taken. Commission and Presidency attempts to get round the compromise failed. The Council will meet again on 17 May.

3. In the absence of the Chancellor of the Exchequer, you might wish the Chief Secretary, Treasury to report briefly on the 11 May Budget Council. The Council agreed a Presidency mandate satisfactory to the United Kingdom for the next round of negotiations with the European Parliament on the classification of expenditure. This dialogue is aimed at removing the main causes of the recurring disputes on the budget between the Council and the Parliament; within this broad objective the Council's mandate also seeks to tighten the budgetary procedure in its own favour and to limit the Parliament's freedom to act unilaterally.

4. It is possible that a meeting of Foreign Ministers may be convened this coming weekend to deal with the budget or the renewal of the Argentine trade embargo or both. Next week the Agriculture and Finance Councils meet on 17 May and the Fisheries Council is scheduled to take place on 18 May. You will be seeing the French Prime Minister on 15 May and President Mitterrand on 17 May.



ROBERT ARMSTRONG

12 May 1982



cc FCO  
HMT  
CO

HL  
Euro PA 9



10 DOWNING STREET

*From the Private Secretary*

MR. HANCOCK

30 May Mandate: Bilateral talks with the French

Thank you for your minute of 10 May.

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

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

A. J. COLES

11 May 1982





Prime Minister

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8

SECRET AND PERSONAL

Qz.02561

MR COLES

*Yes - an excellent idea Mr. of para. 8 below?*

*Content that Mr. Hancock should meet M. Attali later this week and that Sir R. Armstrong should speak to him on the lines of para. 8 below?*

*A.J.C. 107/5.*

cc: Private Secretaries to:

The Foreign and Commonwealth Secretary  
The Chancellor of the Exchequer  
Sir Robert Armstrong

30 MAY MANDATE: BILATERAL TALKS WITH THE FRENCH

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

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

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SECRET AND PERSONAL

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

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

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



SECRET AND PERSONAL

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

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



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

Recommendation

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

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

D.H.

D J S HANCOCK

10 May 1982



**SECRET**

*Euro P.d.*

*7*

NOTE FOR THE RECORD

30 MAY MANDATE: MEETING OF FOREIGN MINISTERS ON 8/9 MAY 1982

1. The Prime Minister's meeting to discuss the Foreign and Commonwealth Secretary's brief on Thursday 6 May is recorded in my letter to Mr. Richards of 7 May.
2. In addition to the points recorded in that letter the meeting also discussed what the Foreign and Commonwealth Secretary might accept if it looked as though agreement were possible for refunds of less than 80 per cent of our unadjusted net contribution.
3. The meeting agreed that we should, in the last resort, be prepared to settle for refunds of 75 per cent of our unadjusted net contribution, plus the gesture of the "over-payments" defined in paragraph 15 of Mr. Hancock's minute of 5 May.

A J COLES

7 May 1982

**SECRET**



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SUBJECT.



cc HMT  
NAPP  
CO

10 DOWNING STREET cc Mr Hancock

From the Private Secretary

7 May 1982

cc. master set

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

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

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

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

/ The Chancellor

CONFIDENTIAL

K/B



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

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

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

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

/ In discussion



CONFIDENTIAL

- 3 -

In discussion of the one-year solution option (paragraphs 19-22 of Mr. Hancock's minute refer) it was agreed that the Government would be in no better position to negotiate a satisfactory multi-year settlement in 1983 than it was in 1982.

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

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

A. J. COLES

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

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Qz.02556

MR COLES *DD 7/5.*

cc: Mr Wright

30 MAY MANDATE

Following the Prime Minister's meeting last evening I am sending you two drafts:-

- (i) a letter to be sent out by you, at Private Secretary level, classified Confidential which records the discussion and the conclusions on all points except one;
- (ii) a note for the record, classified Secret, which I suggest you retain on the files at No 10 as a record of the fallback position which was also agreed. I would advise against sending copies to Departments. Those in the room know what was agreed and if it goes out on paper the paper will be too widely disseminated.

*DH.*

D J S HANCOCK

7 May 1982

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Note for the Record

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

1. The Prime Minister's meeting to discuss the Foreign Secretary's brief on Thursday 6 May is recorded in my letter to Mr Fall of 7 May.
2. In addition to the points recorded in that letter the meeting also discussed what the Foreign Secretary might accept if it looked as though agreement were possible for refunds of less than 80% of our unadjusted net contribution.
3. The meeting agreed that we should, in the last resort, be prepared to settle for refunds of 75% of our unadjusted net contribution, plus the gesture on the "over-payments" defined in paragraph 15 of Mr Hancock's minute of 5 May.

A J Coles

SECRET



~~Draft~~ letter from Mr Coles to the Private Secretaries to:

The Foreign and Commonwealth Secretary

The Chancellor of the Exchequer

The Minister of Agriculture, Fisheries and Food

Sir Robert Armstrong

Blind copy: Mr Hancock

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

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

2. The Foreign Secretary explained that the informal meeting of Foreign Ministers on 8/9 May would be very difficult. He thought it probable that, after protests and difficulties, the Community would agree to extend the sanctions. But positions on the budget problem were a long way apart and the farm price settlement loomed in the background. It was very awkward that these two problems had come together in this way. At the last meeting in Luxembourg he had been offered refunds of 800 million ecus a year, which was 50% or less of our unadjusted net contribution. Herr Genscher had just told him, at a meeting earlier in the afternoon, that the 800 million ecus exceeded his authority from his cabinet. The Foreign Secretary had argued that this was simply not fair on the United Kingdom. The

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Community had agreed to two-thirds in 1980 and was now offering less. Herr Genscher had replied that the effect of the 1980 agreement had been to leave Germany as the sole net contributor which presented a major political problem for the German Government. The 30 May agreement had in any case been too generous and if he had been present he would not have agreed to it. The over-payment which the United Kingdom had received would certainly need to be taken into account in the settlement for 1982 and future years.

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

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



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political problem about Community membership would get acutely worse.

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

6. The Minister of Agriculture said that his view had always been, and remained, that the only way to secure national objectives in the Community was to fight the other member states all the way and be prepared to make oneself very unpopular indeed. In normal circumstances he would have been quite ready to continue to oppose the farm price package through May and into June, despite the escalating pressures on the other governments from the farming interests. But the Government had to consider the effect of such a policy in present circumstances. The economic sanctions against Argentina presented a number of



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other governments with perfectly genuine domestic problems. It would be exceedingly difficult for these to be overcome if at the same time the United Kingdom was preventing the implementation of a price agreement which the Danes, the Irish and the Italians, for example, desperately needed and needed soon. If the 8/9 May meeting ended in complete failure, and at the next Agriculture Council the other nine reached agreement on a price package, as was probable, the atmosphere would turn very hostile indeed. The British Government would be attacked for ruthlessness and unwillingness to compromise in very direct and personal terms. Whether this was acceptable was a matter for the Prime Minister and the Foreign Secretary to judge; but he urged that, if the 8/9 May meeting failed, a very early date should be set for the resumption of the negotiations on the budget.

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



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that the gap between the positions had narrowed and a crisis in the Community would be averted.

8. In discussion of the one-year solution option (paragraphs 19-22 of Mr Hancock's minute refer) it was agreed that the Government would be in no better position to negotiate a satisfactory multi-year settlement in 1983 than it was in 1982.

9. Summing up the discussion, the Prime Minister said that the meeting agreed with the guidelines on flexibility in paragraph 12 of Mr Hancock's minute. The gesture on over-payments in paragraph 15 could also be made at the right time, but not too early. The suggested concession on levies should not be made.

The United Kingdom should not accept a one-year solution. If the 8/9 May meeting failed to reach agreement, our aim should be to secure an early date for resumed discussions.

10. I am sending copies of this letter to . . . . .

MR 7/3



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TO IMMEDIATE FCO

TELEGRAM NUMBER 432 OF 06 MAY 1982

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MY TELNO 403: MANDATE NEGOTIATIONS

1. WHEN I CALLED ON MAUROY THIS MORNING HE RAISED THE QUESTION OF THE MANDATE NEGOTIATIONS AND AGRICULTURAL PRICES. HE SAID IT WAS IMPORTANT FOR FRANCE TO SETTLE AGRICULTURAL PRICES. FAILURE TO DO SO WOULD HAVE SOCIAL CONSEQUENCES. MOST EUROPEAN COUNTRIES WERE IN THE SAME POSITION. HE HOPED WE COULD NOW AGREE TO THE ADOPTION OF THE NEW PRICES. IF NOT FRANCE WOULD SOON HAVE NO ALTERNATIVE BUT TO TAKE COMPENSATORY MEASURES. HE BELIEVED THAT PROGRESS HAD BEEN MADE IN THE MANDATE NEGOTIATIONS AND THAT WE COULD NOW BREAK THE LINK.

2. I EXPLAINED THE SUBSTANTIVE LINK BETWEEN THE TWO QUESTIONS ANDV



2. I EXPLAINED THE SUBSTANTIVE LINK BETWEEN THE TWO QUESTIONS ANDV  
MADE THE POINT THAT IN PRACTICE THE INCREASED COST OF THE  
AGRICULTURAL POLICY RESULTING FROM HIGHER PRICES WOULD FALL  
DIRECTLY ON THE UK AS ONE OF THE COMMUNITY'S TWO NET CONTRIBUTORS.  
MAUROY OBJECTED, THOUGH NOT VERY STRONGLY, THAT IT WAS WRONG TO LOOK  
AT THE BUDGETARY COSTS OF COMMUNITY MEMBERSHIP IN ISOLATION. THIS  
DISCUSSION PROVIDED A USEFUL OPPORTUNITY TO MAKE SOME POINTS WE  
HAVE WANTED TO PUT ACROSS ABOUT THE BUDGET AND THE EFFECT OF  
VARIOUS COMMUNITY POLICIES. MAUROY CONCLUDED BY RESTATING THE  
IMPORTANCE OF AN EARLY DECISION ON AGRICULTURAL PRICES.  
FRETWELL

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PRIME MINISTER

30 May Mandate: UK Budget Problem: Ad Hoc Meeting, 6 May

PURPOSE OF DISCUSSION

A 1. The purpose of this ad hoc meeting is to decide the approach that the Foreign Secretary should adopt on a solution to the UK budget problem at the meeting of Foreign Ministers on 8/9 May. The issues are presented in Mr Hancock's minute to Mr Coles of 5 May.

BACKGROUND

B 2. The last Ministerial discussion of the UK budget problem in the context of the 30 May Mandate was on 17 March when Ministers endorsed the conclusions of the paper attached to Sir R Armstrong's minute of 12 March. Subsequently the Thorn/Tindemans proposal in their "non-paper" emerged.  
C Mr Hancock's minute of 1 April to Mr Coles proposed the line which should be taken in response. This was agreed subject to the comments on duration recorded in Mr Coles' minute of  
D 2 April. The present negotiating instructions as approved by Ministers are set out in Annex B to the minute from Mr Hancock  
A to Mr Coles of 5 May.

E 3. Mr Coles' letter to Mr Lowson of 30 March set out the approach to be adopted on the link of the budget problem with CAP prices. The link was endorsed by Cabinet on 28 April (CC(82) 20th Meeting Conclusions, Minute 2) and was formally established at the Agriculture Council on 28-30 April.

/HANDLING

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HANDLING

A 4. The Foreign and Commonwealth Secretary might be invited to describe the prospects for the 8/9 May meeting as he sees them and his general reaction to the questions posed in Mr Hancock's minute of 5 May. Sir M Butler could then report on any developments in Brussels and give his assessment of the prospects for the meeting on 8/9 May. The Chancellor of the Exchequer and the Minister of Agriculture could then be invited to make any general comments.

A 5. The meeting should then consider the points for decision listed in paragraph 23 of Mr Hancock's minute.

CONCLUSIONS

6. In summing up you will wish to cover:-

- (a) The political objectives
- (b) The general approach to the 8/9 May meeting
- (c) The decisions of the meeting on the questions listed in paragraph 23 of Mr Hancock's minute of 5 May.

A

D.H.

D J S HANCOCK

6 May 1982





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Qz.02553

MR COLES

cc: Private Secretaries to:-

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

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

1. A meeting has been arranged under the Prime Minister's Chairmanship for 5.30 pm on Thursday 6 May to discuss the handling of the next meeting on the Mandate on 8/9 May. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture and Sir Michael Butler have been invited to attend.
2. The meeting of the Foreign Affairs Council on 27 April established where the other Member States at present stand on the figures which might apply for our refunds. It appeared that, with certain reservations by individual countries, the others are prepared to offer refunds costing 800 million ecus a year for 3 or 4 years. 800 million ecus would almost certainly be less than 50% of our unadjusted net contribution for 1982, whereas the UK objective agreed by Ministers is that the refunds should be 90%.
3. Positions are thus a long way apart. On the other hand, the other member states did indicate that they were prepared to accept the Thorn/Tindemans non-paper (Annex A) as a basis for negotiation. This will give us the opportunity to press for our objectives on duration, review and risk-sharing as already agreed by Ministers. (Our negotiating instructions as at present agreed are set out in Annex B.)
4. The meeting of the Agriculture Council on 28-30 April concluded with a price fixing package which was acceptable to most member states but subject to general reserves by the UK

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

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

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

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

- (i) whether the Foreign Secretary should have authority to go beyond Annex B at the meeting on 8/9 May without further reference to his colleagues in London;
- (ii) what the Government should do if the 8/9 May meeting fails.

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Prospects for a solution on 8/9 May

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

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



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Figures

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

Opening position

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

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



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

Subsequent flexibility

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

- a. it would not be right to settle for refunds amounting to less than 80% of our unadjusted net contribution at the discussion on 8/9 May;
- b. we should be prepared to relax our 90% figure in return for agreement by the others to raise their offer substantially above its existing level;
- c. we should not, however, go below 85% unless and until the others have come up to 66% or more.

Possible concession on levies

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



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

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

A gesture on the "over-payments"

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



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

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

If the 8/9 May meeting fails to reach agreement

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

Technical points

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



One year solution

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

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

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

- (i) as the UK agreed to a net contribution of 609 million ecus for 1980 and 730 million ecus for 1981, we should accept a basic figure of 850 million ecus for 1982;
- (ii) that figure should be further increased (ie the refund further reduced) to take account of the "over-payment" in 1980 and 1981; and
- (iii) the UK should give a solemn undertaking not to use the 1983 farm price negotiations as a means of achieving a better deal for subsequent years.

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



Points for decision

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

- (i) Is it agreed that the Foreign Secretary's opening position on figures should be as proposed in paragraph 11?
- (ii) Are the guidelines on subsequent flexibility, as suggested in paragraph 12, agreed?
- (iii) Should the Foreign Secretary have discretion to offer the possible concession on levies in the circumstances described in paragraph 14?
- (iv) Should the Foreign Secretary have discretion to offer a gesture on the "over-payment" in the circumstances described in paragraph 16?
- (v) Do Ministers accept the arguments against a one year solution in paragraphs 20-22?
- (vi) Is it agreed that the Foreign Secretary should seek further authority by telephone if he judges that a serious attempt at reaching agreement is being made - see paragraph 9?
- (vii) If the 8/9 May meeting fails to reach agreement should we aim to ensure that a new date is fixed for further negotiations after about a week's pause for reflection - see paragraph 17?
- (viii) Subject to any new decisions under (i) - (vii) above, is the present negotiating authority as defined in Annex B confirmed?

D.H.

D J S HANCOCK

5 May 1982



NON PAPER

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

1. The Community will grant compensation to the United Kingdom for 5 years, starting in 1982.
2. The basic amount of this compensation will be set at a uniform level for 1982, 1983 and 1984 of 1x million ECU 7. This amount represents y % of the objective indicator for 1981. If this ratio between the compensation and the objective indicator varies in 1982, 1983 or 1984 by more than 10 %, a correction will be made on the basis of a Commission proposal, on which the Council will take a decision by a qualified majority.
3. A further correction will be made if the United Kingdom's V.A.T. share exceeds its GDP share. This compensation will represent z % of the difference.
4. The amount of compensation for 1985 and 1986 will be decided on by the Council before the end of 1984 acting unanimously on a proposal from the Commission.



## NEGOTIATING INSTRUCTIONS PREVIOUSLY AGREED BY MINISTERS

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

- (i) Duration The UK should aim for a five year settlement but could accept if necessary a five year agreement whereby firm arrangements covered only the four years 1982-85 inclusive, with the arrangements for 1986 to be decided by the formula in paragraph 4 of the non-paper.
- (ii) Review A review at the end of the period is essential, but it need not be expressed in terms which appeared to prejudge whether compensation should continue after the end of the 5 year period.
- (iii) Flexibility or "risk sharing formula" The agreement needs to provide for compensation to be adjusted automatically to changes in circumstances to avoid an annual negotiation over figures (see paragraph 2 of the non-paper). The UK would propose that if the ratio gave too much compensation, the refund would be reduced by an agreed percentage of the excess; and if the ratio gave the UK too little, then the refund would be increased by the same percentage of the shortfall. Ideally the risk sharing percentage should be the same as the basic compensation percentage - ie Y % of the objective indicator for 1981.



- (iv) Tolerance Margin The UK should argue for the tolerance margin proposed in paragraph 2 of the non-paper to be reduced from 10% to 5% and that the risk sharing formula should apply to the whole of the excess or shortfall if the margin is greater than 5% of the objective indicator.
- (v) Contributions Gap The UK should insist that the whole of this is covered, and not just the VAT element.
- (vi) Financing The UK could accept ad hoc methods of financing outside the own resources system, such as the use of Article 200 of the Treaty, provided that such a device does not open up a means of evading the 1% ceiling. If necessary to secure an otherwise acceptable settlement the UK could accept a commitment to review the own resources system in the context of enlargement, but only on the clear condition that there is no commitment whether explicit or implicit to raise the 1% VAT ceiling.



FORECAST OF GAPS IN 1982

million ecus

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

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

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

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

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

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



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ANGLO-GERMAN ECONOMIC COMMITTEE: 30 MAY MANDATE

FOLLOWING FROM BRIDGES

1. BRIDGES, HANCOCK AND HANNAY DISCUSSED THE 30 MAY MANDATE IN THE MARGIN OF THE MEETING OF THE ANGLO-GERMAN ECONOMIC COMMITTEE ON 4 MAY WITH FISCHER, THIELE (CHANCELLOR'S OFFICE) AND SCHMITT (FINANCE). THERE WAS LITTLE GIVE IN THE GERMAN POSITION, BUT WE LEFT THEM IN NO DOUBT THAT, WITHOUT A SUBSTANTIAL SHIFT, IT WAS HARD TO SEE HOW PROGRESS COULD BE MADE AT THE WEEKEND, LET ALONE A SETTLEMENT REACHED.
2. FISCHER EXPLAINED THE 800 M.E.C.U. REFUND FIGURE OFFERED BY THE GERMANS AND OTHERS AT THE 7 APRIL COUNCIL MEETING AS FOLLOWS. IT WAS BASED ON THE EARLIER COMMISSION ESTIMATE OF AN UNADJUSTED NET CONTRIBUTION FOR THE UK IN 1982 OF 1800 M.E.C.U. THE UK SHOULD BEAR 850 M.E.C.U. (EXTRAPOLATION OF THE UK ADJUSTED NET CONTRIBUTION FIGURES FOR 1980 AND 1981 IN THE 30 MAY AGREEMENT) PLUS 150 M.E.C.U. TO COMPENSATE FOR THE QUOTE OVERPAYMENT UNQUOTE IN RESPECT OF 1981. NOW THAT THE COMMISSION ESTIMATE FOR THE UNADJUSTED NET CONTRIBUTION IN 1982 WAS BETWEEN 1600 AND 1700 M.E.C.U. AND COMING DOWN, THE 800 M.E.C.U. REFUND OFFER REALLY OUGHT TO BE REDUCED. THAT WAS WHAT HERR GENSCHER HAD MEANT WHEN HE TOLD YOU AT HIS BILATERAL MEETING WITH YOU ON 27 APRIL THAT THE LONGER THE NEGOTIATION WENT ON THE MORE RESTRICTIVE HIS MANDATE WOULD BE.
3. WE SAID THAT, WHILE THE BRITISH GOVERNMENT WAS CERTAINLY PREPARED TO ACCEPT AN OUTCOME WHICH LEFT US WITH A LARGER NET CONTRIBUTION THAN WE HAD MADE IN 1981, PROPOSALS WHICH AMOUNTED TO A REFUND OF LESS THAN HALF OUR ESTIMATED CONTRIBUTION FOR 1982 AND WHICH LEFT US BEARING THE WHOLE RISK IN THE EVENT OF A HIGHER OUTTURN THAN WAS FORECAST IN THAT AND SUBSEQUENT YEARS WERE NOT ACCEPTABLE. THE ONLY HINT OF FLEXIBILITY FISCHER GAVE IN RESPONSE WAS TO SAY THAT, IF WE MERELY REJECTED 800 M.E.C.U. AT THE WEEKEND AND GAVE NO INDICATION OF WHAT WE COULD ACCEPT, HE DID NOT SEE HOW THE NEGOTIATION WAS TO BE CARRIED FORWARD.
4. ON METHOD, THE GERMANS SAID THEY CONTINUED TO ACCEPT THORN/TINDEMANS FRAMEWORK, INCLUDING COVERAGE OF THE VAT TRANCHE. BUT THEY REGARDED 800 M.E.C.U. AS AN OVERRIDE, AND SO A MAXIMUM NET REFUND FOR ANY OF THE THREE YEARS 1982-4. WE SAID THAT, WHILE WE WERE PREPARED TO WORK ON THE BASIS OF A METHOD WHICH CONCEALED THE CONCEPT OF OVERALL NET CONTRIBUTIONS, ANY DEAL THAT WAS STRUCK WOULD HAVE TO BE EXPLAINED AND DEFENDED BY US AT HOME IN TERMS OF OUR NET CONTRIBUTION THAT WAS TO BE REFUNDED AND

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THE PROPORTION WE WOULD CONTINUE TO BEAR. IF THE THORN/TINDEMANS METHODS COULD BE ADJUSTED TO GIVE SUCH A RESULT AND ONE THAT WAS FAIR AND EQUITABLE, THEN WE COULD ACCEPT IT AS THE BASIS TO WORK ON. BUT THE INTRODUCTION OF A LUMP SUM OVERRIDE WENT DIRECTLY CONTRARY TO THOSE CONSIDERATIONS.

5. THE GERMANS ARGUED AT LENGTH AGAINST THE RETENTION OF A LINK WITH THE AGRICULTURAL PRICE SETTLEMENT. THEY ONLY DEFENDED FEEBLY THE OUTLINE AGREEMENT REACHED IN THE AGRICULTURAL COUNCIL LAST WEEK AS BEING A LESSER EVIL; BUT MADE MUCH OF THE CRISIS THAT WOULD DEVELOP IF WE BLOCKED ITS IMPLEMENTATION. WE POINTED OUT THAT, BECAUSE OF ITS OVERLAP, AND IN SEVERAL CASES CONTRADICTION WITH THE MANDATE DISCUSSIONS ON AGRICULTURE AND BECAUSE OF THE SERIOUS FINANCIAL CONSEQUENCES FOR THE UK IN THIS AND FUTURE YEARS IT WAS ENTIRELY UNREASONABLE TO TRY TO SEPARATE THE TWO DECISIONS. TWO OF THE PROBLEMS REFERRED BY THE EUROPEAN COUNCIL IN NOVEMBER TO THE FOREIGN MINISTERS AT THE SAME TIME AS THE UK BUDGET PROBLEM (HELP FOR SMALL MILK FARMERS AND IMPROVEMENTS FOR MEDITERRANEAN AGRICULTURE) WERE ACTUALLY INCLUDED IN THE PRICE PACKAGE. THE GUIDELINES ON A PRUDENT PRICE POLICY AND ON NARROWING THE GAP BETWEEN THE US AND EC CEREALS PRICE WERE BEING IGNORED. THERE WAS NO NEED FOR A CRISIS IF ONLY AN EQUITABLE DEAL COULD BE STRUCK ON THE BUDGET. THE GERMANS SPOKE DARKLY OF ADOPTING THE AGRICULTURAL PRICES BY A MAJORITY VOTE OR OF FRENCH NATIONAL MEASURES. BUT THEY CONCEDED THAT THERE WAS PROBABLY A WEEK OR TWO BEFORE THE POLITICAL SITUATION GOT OUT OF CONTROL. THEREAFTER, THEY SAID, THE CHANCELLOR WAS DEEPLY PESSIMISTIC.

6. COMMENT. FISCHER WAS IN HIS MOST UNYIELDING FORM. THE GERMAN POSITION AS DESCRIBED BY HIM IS THAT IT IS NOW UP TO THE BRITISH TO REACH A QUICK SETTLEMENT. FAILURE TO REACT TO THE IDEAS NOW ON THE TABLE WILL PROVOKE AN EARLY COMMUNITY CRISIS FOR WHICH, HE CLAIMED, ALL OTHER MEMBER STATES WILL HOLD US RESPONSIBLE. GENSCHER HAS NOT YET REPLIED TO TINDEMANS' INVITATION BUT IS EXPECTED TO ACCEPT IN THE BELIEF THAT A REAL NEGOTIATION AT VILLERS-LE-TEMPLE IS ESSENTIAL, ALTHOUGH FISCHER SEEMED TO SHARE OUR SURPRISE AT THE KIND OF MEETING CONVOKED BY THE PRESIDENCY.

TAYLOR

E C BUDGET LIMITED

ECD (I)

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WED

ESID

PS/MA HURD

PS/PUS

LORD BRIDGES

MR HANNAY

MR EVANS

MR HAYES

COPIES TO

TREASURY (MISS WRIGHT RM 18/G)

MR ELLIOTT } CABINET OFFICE  
MR RHODES }

ECD ODA

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ce: FCO  
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10 DOWNING STREET .

*From the Private Secretary*

MR. HANCOCK  
CABINET OFFICE

30 MAY MANDATE: NEXT STEPS

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

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

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

A. J. COLES

S

4 May 1982





*M. Jones to Clayton*

*12-30 pm*

PM/82/30

PRIME MINISTER

30 May Mandate Negotiation

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

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

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

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

(FRANCIS PYM)

Foreign and Commonwealth Office

1 May 1982

cc: PS/Chancellor of  
the Exchequer  
Sir R Armstrong





PM/82/30

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3. I also agree that it would be useful for you to follow up your telephone conversation with Chancellor Schmidt by a message explaining our position on linkage.
4. I am glad we are to have an opportunity on 6 May to discuss the line I should take on 8/9 May with you and other colleagues concerned.

(FRANCIS PYM)

Foreign and Commonwealth Office

1 May 1982

cc: PS/Chancellor of the Exchequer

Sir R Armstrong



PRIME MINISTER

*Mr. Hurd to change*  
12.30 1/5

EC MANDATE

In your Box there is a minute from Mr. Hancock recommending that you should send a message to the German Chancellor and that Mr. Hurd should pay a special visit to Brussels on Monday to see Messrs Thorn and Tindemanns. A decision is needed as soon as possible this weekend.

The Chancellor of the Exchequer has said this morning that he does not entirely agree with this recommendation. He does not believe that the concession proposed is necessarily the right one; and he considers that now is the wrong time to offer a concession and that Tindemanns and Thorn are the wrong people to offer it to.

He also finds implausible the last sentence of paragraph 4 of Mr. Hancock's minute. He thinks it unlikely that after the United States decision to come down on our side over the Falklands our partners would refuse to renew sanctions.

The Chancellor is content that you should send the proposed message to Chancellor Schmidt without any changes. As regards Mr. Hurd's mission, he thinks this should still go ahead but that paragraph 7 of the speaking note should be deleted.

On the other hand, the Foreign and Commonwealth Secretary and Mr. Hurd have said this morning that they see no point in Mr. Hurd visiting Brussels unless he can offer the concession in paragraph 7. As they see it, the choice is between a visit on the lines proposed by Mr. Hancock or no visit at all.

Do you agree:

- a) the message should be sent to Chancellor Schmidt?
- b) Mr. Hurd should visit Brussels with discretion to make the concession?

JOHN COLES

1 May 1982



PRIME MINISTER

*More message should be sent to Chancellor.*

*As there is a disagreement between the F.O. and the Treasury, I think*

*The Hurd should not go on*

EC MANDATE

*Tuesday I do not think we should make any concessions until the final resolution. We should only be driven to offer more.*

In your Box there is a minute from Mr. Hancock recommending that you should send a message to the German Chancellor and that Mr. Hurd should pay a special visit to Brussels on Monday to see Messrs Thora and Tindemanns. A decision is needed as soon as possible this weekend.

The Chancellor of the Exchequer has said this morning that he does not entirely agree with this recommendation. He does not believe that the concession proposed is necessarily the right one; and he considers that now is the wrong time to offer a concession and that Tindemanns and Thora are the wrong people to offer it to.

He also finds implausible the last sentence of paragraph 4 of Mr. Hancock's minute. He thinks it unlikely that after the United States decision to come down on our side over the Falklands our partners would refuse to renew sanctions.

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Do you agree:

- a) the message should be sent to Chancellor Schmidt?
- b) Mr. Hurd should visit Brussels with discretion to make the concession?

JOHN COLES

1 May 1982





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Prime Minister

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A decision is needed as soon as possible this weekend and by 1700 hrs. on Sunday at latest.

Qz.02550

MR COLES

cc: Private Secretaries to:

The Foreign and Commonwealth Secretary

The Chancellor of the Exchequer

Mr Hurd

Sir Robert Armstrong

*No - not (ii)* 2. Agree recommendations in para. 10?  
3. The duty level at No. 10 is awaiting a response. A.J.C.  $\frac{30}{4}$

30 MAY MANDATE: NEXT STEPS

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

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

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

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



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

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

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



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

Substance of the message

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

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



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

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



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Message to Chancellor Schmidt

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

Recommendations

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

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

*No*  
(ii) Authority for Mr Hurd to visit Monsieur Tindemans and Monsieur Thorn next Tuesday, 4 May, conveying the message on figures recommended in paragraph 6 above plus the concessions on the levies gap and duration described in paragraphs 7 and 8 above. A full speaking note for Mr Hurd to use is attached at Annex D.

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

D.H.

D J S HANCOCK

30 April 1982



NON PAPER

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

1. The Community will grant compensation to the United Kingdom for 5 years, starting in 1982.
2. The basic amount of this compensation will be set at a uniform level for 1982, 1983 and 1984 of 1x million ECU7. This amount represents y % of the objective indicator for 1981. If this ratio between the compensation and the objective indicator varies in 1982, 1983 or 1984 by more than 10 %, a correction will be made on the basis of a Commission proposal, on which the Council will take a decision by a qualified majority.
3. A further correction will be made if the United Kingdom's V.A.T. share exceeds its GDP share. This compensation will represent z % of the difference.
4. The amount of compensation for 1985 and 1986 will be decided on by the Council before the end of 1984 acting unanimously on a proposal from the Commission.



FORECAST OF GAPS IN 1982

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

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

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

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

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



ANNEX C

DRAFT MESSAGE FOR THE PRIME MINISTER TO SEND TO  
CHANCELLOR SCHMIDT

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

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

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

/originally



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

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

ms.



SPEAKING NOTE FOR MR HURD TO USE

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

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

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

/prepared



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

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

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

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

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

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

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



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PRIME MINISTERCommunity Affairs

The Chancellor of the Exchequer might report on the outcome of the Council of Ministers (Finance) on 26th April, at which the United Kingdom was represented by the Financial Secretary, Treasury. The Council agreed a Community mandate for the forthcoming negotiations on the export credit consensus, on which the French remained opposed to an increase in minimum interest rates, but may move later. The Council also agreed to a new single tranche of 1,000 MECU for the Ortoli loan facility.

2. The Foreign and Commonwealth Secretary might report on the main features of the 26th-27th April Foreign Affairs Council (the mandate having been dealt with in Wednesday's Cabinet). Mr. Hurd and Mr. Rees represented the United Kingdom on the first day. The Council had a first discussion of the Parliament's proposals for the introduction of proportional representation on a uniform basis for the 1984 elections, and remitted them to COREPER for study. There was a set piece exchange of views on the review of the Regional Development Fund but no decisions were taken. The Presidency reported progress in the dialogue with the Parliament on the budget classification dispute, the next stage of which will be prepared by a Budget Council on 11th May. The United Kingdom pressed for and got improved proposals for import restraints on Turkish cotton yarn. Declarations on further aspects of the Portuguese accession negotiations were agreed and presented to the Portuguese.

3. The Standing Employment Committee took place on 27th April but is unlikely to give rise to a report or discussion.

4. The Agriculture Council is meeting this week as already reported to Wednesday's Cabinet.

5. Next week the Agriculture Council resumes on 3rd-4th May, and the Industry Council meets on 4th May.



Robert Armstrong

28th April 1982

CONFIDENTIAL



Ref. A08246

PRIME MINISTER

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Cabinet: Community Affairs

This item has been added to the Wednesday Cabinet agenda to enable the Foreign and Commonwealth Secretary to report to Cabinet urgently, in accordance with an undertaking he gave to his Community colleagues in Luxembourg, on the outcome of the discussion of the mandate at the 26-27 April Foreign Affairs Council. You may prefer to take any other Community items in the normal way at Thursday's Cabinet.

2. We do not yet have full reports of the mandate discussion, but it appears that a substantial gap still remains between what we want and what the others are prepared to give us, and that the Council agreed to resume discussion at the informal meeting of Foreign Ministers on 8-9 May. Meanwhile the President of the Council and the President of the Commission will take up the budget problem direct with the United Kingdom, and the Agriculture Council is still intended to go ahead as scheduled on 28-29 April.

3. In these circumstances the United Kingdom came under strong pressure in the margins of the Council to abandon the link between the budget and the emerging CAP prices package. After Mr Pym had firmly reiterated the clear basis for the link several times he agreed to report the strong feelings of his Community colleagues to the Cabinet, making it clear that this should not be taken as implying any likelihood of a change in the Government's position. The urgency thus arises from the need to report back to the President of the Council on the Government's reaction before the Agriculture Council convenes on the afternoon of 28 April.

4. You might therefore invite the Foreign and Commonwealth Secretary to report on the mandate discussions on 27 April.

RIA

ROBERT ARMSTRONG

27 April 1982





FCS/82/64

MINISTER FOR AGRICULTURE, FISHERIES AND FOOD

European Community: The Mandate

1. Many thanks for your letter of 23 April about the crucial phase of the Mandate negotiations we are about to enter.
2. I agree with your analysis of the position we have reached. The pressures are now building for a CAP prices settlement, despite the great success you and Alick Buchanan-Smith have had thus far in keeping a genuine negotiation on the agricultural issues going; and I quite see that the situation might become increasingly awkward in the Agriculture Council on Wednesday and Thursday, particularly if the Budget discussions were felt to have made inadequate progress. I also take your point that we have agricultural interests at stake in the negotiations which might be jeopardised if our partners felt that we were no longer ready to negotiate on the purely agricultural issues.
3. All this points, as you say, towards the desirability of a postponement of the Agriculture Council. However, it appears that several of our partners, not least the Presidency, are determined that the Council should go ahead and we shall have to tread carefully. An attempt on our part to secure postponement could easily backfire with our partners blaming us for foot-dragging. But much will obviously depend on how things go in the Mandate discussions on Tuesday, and I will have to decide how to play this in the light of circumstances at the time. But I shall certainly have your points in mind.
4. I am copying this minute to the Prime Minister and other members of the Cabinet, and to Sir Robert Armstrong.

Prime Minister

102 27/4.

102 29/4

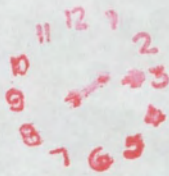
p.c.

Foreign and Commonwealth Office  
26 April 1982

(FRANCIS PYM)



26 APR 1982





010

2



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

Prime Minister

From the Minister

To note.

CONFIDENTIAL

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

MR 23/4

23 April 1982

Dear Secretary of State

EUROPEAN COMMUNITY: THE MANDATE

As you will have seen from the telegrams, Alick Buchanan-Smith had a very successful Agriculture Council this week in which he contrived, by close collaboration with the Germans, the Dutch and the Danes, to prevent the issues from coming to a head in a way which would have isolated us and fixed on us the blame for a breakdown. Most of the discussion was on wine, where there are signs of a compromise in the offing. The chairman, de Keersmaecker, wanted to press on and try to reach an overall agreement, at least between Nine. But Alick was able to mobilise opinion against this, on the grounds that it would have been too dangerous a move before the budget discussions had even started. The outcome was that the chairman simply summed up the progress made and the Agriculture Council decided in principle to meet again on Wednesday 28 April, but with the Presidency given discretion to postpone this if developments at the Foreign Ministers' Council the previous day made this desirable.

During the meeting Ertl told Alick that Genscher would have to leave the Foreign Ministers' Council at lunchtime on 27 April, and could be expected to arrive in a preoccupied state, following a meeting of the FDP inner caucus the previous day to consider the prospects for the coalition. If this is so, it must make it unlikely that really positive progress can be made then towards a budget settlement. In the absence of such progress it would in my view be futile and damaging for the Agriculture Council to

/meet next week. ...

CONFIDENTIAL



CONFIDENTIAL

meet next week. If it did, we should of course have to frustrate any agricultural settlement. But it might not prove possible again to do so without producing a nine-to-one line-up. The pressures on some of the others to have an agricultural settlement quickly are mounting: the Belgians want their green rate devaluation, the Danes and the Irish are in trouble with their farmers, the Italians and the Greeks want their pay-off on the Mediterranean commodities. It may not be too difficult next time for the Presidency to line up the rest behind a possible settlement. We still of course have major interests of our own to secure, particularly on milk (where we must avoid a co-responsibility levy that discriminates in favour of small farmers and so sets a precedent for turning the CAP into a social aid policy) and on the green pound (where we must maintain the right to decide for ourselves on the appropriate level); and we shall have trouble in doing so if we begin to get left out of the negotiating process.

On my reading of the situation this is what the French are playing for. They are making a show of being unconcerned about how long the price fixing takes, but given the need to satisfy their farmers this must be merely tactical. What they clearly want is to play the budget long, to get an agricultural agreement between Nine and then to rally all the rest in putting the strongest possible pressure on us to let the agricultural settlement go through and thus forfeit our strongest negotiating card. At the very least they will want to ensure that the blame for delay rests with us.

You will no doubt wish to consider how best we can frustrate these tactics. I suggest that there would be advantage in making it clear to other member governments before and during next week's Foreign Ministers' Council that such tactics cannot succeed: we shall not agree to the agricultural settlement until the budget is also settled, however strong the pressures on us to do so; and any appearance of ganging-up against us will make it more difficult, not easier, to settle on the budget. If there is little progress on the budget at the Foreign Ministers' Council, I suggest that you should seek to persuade the Germans to join in an approach to the Presidency to postpone the Agriculture Council until the budget negotiation is nearer a conclusion. The argument would be that to hold an Agriculture Council which must inevitably be abortive could only generate ill will: either there would be a universal disinclination to compromise, or there would be an attempt to isolate the UK, which would make the whole mandate negotiations more difficult.

/If of course ...

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If of course you make good progress on the budget, you will wish to consider how best to bring both negotiations to a satisfactory conclusion. I suspect, as I know the Germans also do, that we may have to adopt the device we employed in May 1980, of simultaneous Foreign and Agriculture Ministers' Councils. You will in any case be able to indicate that we are very ready to reach agreement on agriculture, provided that there can be agreement on the budget at the same time.

I thought I should let you have these suggestions on tactics, for we are reaching a critical stage in the two negotiations. The agriculture negotiation has got well ahead of the budget negotiation. Somehow we have to bring the budget negotiation quickly to the same stage and then settle the two together. Another Agriculture Council in the absence of progress on the budget would be very damaging and I hope you will be able to prevent it.

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

*Yours sincerely*

*Robert Lawson*

*f* PETER WALKER  
(Approved by the Minister  
and signed in his absence)

CONFIDENTIAL



23 APR 1982

12 1 2 3 4 5 6 7 8 9 10 11



**SAVING TELEGRAM**

**BY BAG**

UNCLASSIFIED

FROM PARIS TELNO 46 SAVING OF 9 APRIL  
TO FCO  
SAVING TO (FOR INF) OTHER EC POSTS  
FRAME ECONOMIC

*Even Pol*

30 MAY MANDATE : CHEYSSON INTERVIEW IN PARIS MATCH

1. This week's Paris Match carries an exclusive interview with Cheysson on world affairs. The following is the section on the Community.
2. The questioner asked whether Britain's membership of the EC was really in question. Cheysson replied. "I do not believe that Britain belongs to the Community. She has acceded to the Treaty, she applies certain parts of it, and she proposes purely and simply to apply clauses which do not figure in any way in the Treaty and which are even contrary to its spirit, but I do not consider that she really belongs to the Community. Hence the problem arises: does Britain want to belong to the Community or not? Or should the Community be changed and are we ready for this? The problem arises, as far as I am concerned, in terms as serious as this but this does not mean that it will be dealt with quickly".
3. The interviewer then interrupted to say that France had been patient with Mme Thatcher. M. Cheysson continued: "We have lived in a considerable degree of ambiguity and I am grateful to the British for contributing to dissipating this. The Community involves policies which are significant and constraining. Is it possible to construct these policies if not all countries have the feeling that they have a real interest in them? There are some Community policies, such as agriculture for example, in which Britain has the feeling that she has no interest. But we shall certainly have to deal with this subject one day". Asked whether France would raise this question, Cheysson replied "No, it is in the nature of things. The Nine other Member States in the Community have an essential interest in the agricultural policy. Britain has only a secondary interest. This is the real difficulty".
4. The interviewer finally asked whether Europe could get along without Britain. Cheysson replied "No, it is not possible to imagine Europe without Britain. For a start where would she (Britain) go? A modern industrialised country cannot remain isolated with 50 million people, that is not possible. With whom will she be associated? That is the first question. The second: Britain is in difficulty, and if she was all alone these difficulties would be even more acute and this would be grave problem for everybody. We need Britain in the Community. But with the Community as it stands? Can one further develop the Community so that in the policies which are of interest to Britain she finds compensation for those policies which interest her less. All this remains to be seen. But it will take time".

FRETWELL

[COPIES SENT TO NO 10 DOWNING STREET]

FRAME ECONOMIC

ECD(I)

PS





Prime Minister

A.J.C. 2/4

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

2 April 1982

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

*See John,*

*[Handwritten initials]*

*A.J.C. 2/4*  
*h.c.*

30 MAY MANDATE : FOREIGN MINISTERS' MEETING, 3 APRIL

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

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

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

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

*Yours ever,*

*J. O. Kerr*

J.O. KERR



11111  
12/ APR 1982

11111  
12/ APR 1982

COLLEGE





10 DOWNING STREET

*From the Private Secretary*

MR. HANCOCK

30 MAY MANDATE: FOREIGN MINISTERS MEETING, 3 APRIL

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

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

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

A. J. COLES

2 April 1982



CONFIDENTIAL

Qz.02528

MR COLES

cc: Private Secretaries to:

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

30 MAY MANDATE: FOREIGN MINISTERS MEETING, 3 APRIL

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

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

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

Prime Minister

A decision is required on Friday.  
Content that the Foreign Secretary  
should be guided by the brief at  
the EC meeting on Saturday?

A.F.C.  $\frac{1}{4}$

①



- (iii) Flexibility or "risk-sharing formula" - we must secure an amendment to the second half of paragraph 2 of the non-paper so that the compensation is adjusted automatically to changes in circumstances and an annual negotiation over the figures avoided. The Foreign Secretary is therefore briefed to propose an automatic formula such that, if the ratio gives the UK too much, then the refund should be reduced by an agreed percentage of the excess; and, if the ratio gives the UK too little, then the refund should be increased by the same percentage of the shortfall. Ideally, the risk-sharing compensation percentage should be the same as (ie not less than) the basic compensation percentage for 1981 - the y per cent in the draft. Otherwise our overall compensation percentage would decline over time if our deficiency of receipts increased in nominal terms.
- (iv) We need not object to the other component of the last sentence of paragraph 2 of the non-paper, namely that the "risk-sharing formula" described above only be triggered if a stated percentage tolerance margin is exceeded. But we should argue for (a) a reduction in the percentage tolerance margin from 10 percentage points to 5 percentage points and (b) the application of the risk-sharing formula to the whole of the excess or shortfall, compared with 1981, if the 5 per cent margin is exceeded.
- (v) We must insist on the extension of paragraph 3 of the non-paper so that it relates to the whole of our contributions gap and not just the VAT element in it. Without such an extension it is unlikely that our objective of refunds totalling 90 per cent of our unadjusted net contribution could be achieved.
- (vi) Financing - we can accept ad hoc methods of financing outside the own resources system such as the use of Article 200 of the Treaty of Rome, provided that such a device does not open up the means of evading the 1 per cent ceiling. And, if necessary to secure



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

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

Paragraph 4 of the non-paper

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



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

Contribution gap (paragraph 3 of non-paper)

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

Figures

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



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

Recommendation

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

D.H.

D J S HANCOCK

1 April 1982

Will agree by [4+1]

but worried about effect of 5.

- especially if we have to

reduce the % below 90%

mf



NON PAPER

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

1. The Community will grant compensation to the United Kingdom for 5 years, starting in 1982.
2. The basic amount of this compensation will be set at a uniform level for 1982, 1983 and 1984 of  $\frac{1}{x}$  million ECU  $\frac{1}{y}$ . This amount represents  $y$  % of the objective indicator for 1981. If this ratio between the compensation and the objective indicator varies in 1982, 1983 or 1984 by more than 10 %, a correction will be made on the basis of a Commission proposal, on which the Council will take a decision by a qualified majority.
3. A further correction will be made if the United Kingdom's V.A.T. share exceeds its GDP share. This compensation will represent  $z$  % of the difference.
4. The amount of compensation for 1985 and 1986 will be decided on by the Council before the end of 1984 acting unanimously on a proposal from the Commission.



CONFIDENTIAL

6-20-82



file

cc: FCO  
HMT  
CO

10 DOWNING STREET

From the Private Secretary

30 March 1982

✓ CAP file

30 May Mandate and Prices Fixing

You rang me on 28 March to give me an account of Mr. Walker's discussion the previous day with his Belgian opposite number. The Belgian Minister had said inter alia that he understood that it was necessary for the UK to make a link between the agricultural price settlement and the Mandate; but that he nevertheless wished Agricultural Ministers to complete their work on the package urgently so that, as soon as the Mandate problem was solved, it could be implemented. I passed on this message to the Prime Minister.

There was, as you will have seen from the reporting telegram, very little discussion of the Mandate at the European Council and virtually no reference to the Agricultural Price Review. But the line taken by President Mitterrand makes it unlikely that any solution to the budget problem will be found at the next meeting of Foreign Ministers in Luxembourg on 3 April.

In speaking to the press after the European Council, the Prime Minister stressed that the European Council had agreed last November that progress on the three chapters on the Mandate should be made in parallel. She also stressed that the size of the price increase would be a crucial determinant of the UK's contribution in future years.

In this situation the Prime Minister believes that we may be entering a period lasting some weeks in which no agreement can be reached on either the Mandate or on agricultural prices. During that period we shall have to maintain our veto on the implementation of any agreement on prices against a background of mounting criticism from other member states and the Commission. For that reason the Prime Minister is most anxious that the United Kingdom should take a consistent line on the nature of the inherent link between CAP policies and our budget problem in all the relevant Mandate negotiations. I attach as an annex to this letter, a brief on this point which was agreed last week by the officials of the departments concerned.

/ The Prime Minister

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15



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- 2 -

The Prime Minister naturally hopes that Mr. Walker will take a full part in the price-fixing negotiations in order to attain as many UK agricultural objectives as possible, including a low price increase. If the Agriculture Council reaches the point where the other nine Ministers are ready to agree, she thinks that it would be particularly helpful for your Minister, in explaining our continuing veto, to make a special point of stressing to his colleagues (and to the press afterwards) that the reason why the United Kingdom cannot agree to the package is that the price proposals and the other measures that increase our net contribution would, failing a budgetary corrective arrangement, impose an excessive cost on British taxpayers.

I am copying this letter to the Private Secretaries to the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer and Sir Robert Armstrong.

A. J. COLES

Robert Lowson, Esq.,  
Ministry of Agriculture, Fisheries and Food

CONFIDENTIAL



WARNING NOTE FOR USE IF IT IS SUGGESTED THAT THE UK SHOULD AGREE TO AN AGRICULTURAL PRICE SETTLEMENT IN ADVANCE OF AN AGREEMENT ON THE BUDGET PROGRAM

We all agreed last November that progress on the three Chapters of the Mandate should be made in parallel. The measures which are being considered in the context of the price fixing are organically linked with the proposals for CAP reform which have been discussed in the context of the Mandate. For example, the price proposals cover the treatment of Mediterranean products, help for small milk producers, modulation of guarantees for surplus products and the regime for cereals. They also have implications for the proposed guideline on the rate of growth of agricultural expenditure. We should not envisage decisions being taken on the CAP when comparable decisions on the implementation of the other Chapters have yet to be taken. Moreover, decisions taken now on the level of CAP prices will be a crucial determinant of the level of the UK net contribution in this and future years, and some of the current proposals, such as aid for small milk producers, and Mediterranean agriculture, would significantly add to the UK's budget burden. It would not be right to take decisions of this kind when we have still not agreed how that burden is to be alleviated.



1. MR. COLES

*We shall see.  
A.F.C. 3*

*AM*

2

2. PRIME MINISTER

I took a telephone call from Peter Walker this afternoon. He reported a conversation with his opposite number from the FRG about M. Mitterrand's attitude to the Commission's proposals on the Mandate. Apparently Herr Genscher spoke to Cheysson yesterday, and told him that he was shocked by Mitterrand's attitude. If the French took this line, he said, it would not be worth holding the Foreign Affairs Council on Saturday. At this, Cheysson backed off and said that M. Mitterrand had been misunderstood. The President had not meant that the Commission's proposals were unacceptable as a basis for discussion. He had simply meant that, because they contained no details or figures, they were unacceptable as a basis for conclusions.

The German Agriculture Minister said that Genscher had concluded from this that the French would be willing to negotiate at the Foreign Affairs Council.

I have passed this message to Lord Carrington's Office.

*LM*

31 March 1982



5  
1.2. M 30.  
3Mr ColesBILATERAL TALKS WITH THE ELYSEE

The further meeting this morning with the Elysee was not very productive. M. Attali sent a message to say that he was unable to come as he was doing some task for the President. I therefore saw his colleague M. Morel on my own.

M. Morel spent some time discussing the tables of the costs of Community membership to the United Kingdom and the net balances of the various Member States which we had given to M. Attali yesterday. The gist of his comment was that the United Kingdom was considering the costs of the Community and not looking at it in a full context. "You are only looking at one side of the moon". I replied appropriately and the discussion went on for quite some time.

He then gave what I took to be the main message he had to pass on the President's behalf. This was that although the French President accepts that there is a UK problem for which a solution must be found, he could not agree to any solution that would transform a transitory system into a kind of permanent system. The way in which the United Kingdom presented its case implied that we were asking for a permanent structural change in the Community arrangements. What was required was finding a way to enable the United Kingdom to join the system.

The search for a solution would be very much more difficult in 1982 than it had been in 1980. In 1980 the other Member States had a reserve of resources which could be made available to help a Member State in difficulties, namely the United Kingdom. This year all the other nine Member States faced important financial constraints and would have great problems in selling the agreement to public opinion. This applied to France as well as the others. When I remarked that my impression had been that the French had had difficulties before the 30th May Agreement in 1980, he replied that the debate in France this time would be "much less ideological and much more a matter of substance".

When I asked M. Morel what we did next, I did not get much of a reply. He said little more than that the President yesterday had intended to repeat the announced decision of the French Council of Ministers last Wednesday. He was not saying anything new. M. Cheysson would certainly come to Luxembourg on Saturday and would not exclude any kind of discussion. But the Presidency "non-paper" could not provide the basis for agreement because it did not specify what the cost to France would be.

M. Morel and I agreed to have another word before leaving Brussels today just in case there was anything useful we might say to each other.

D.H.

30 March 1982

(D J S Hancock)



DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

AJ Coles

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

R Lowson Esq

Secret

Copies to:

Confidential

Restricted

Unclassified

PRIVACY MARKING

SUBJECT:

..... In Confidence

30 MAY MANDATE AND PRICES FIXING

CAVEAT.....

You rang me on 28 March to give me an account of Mr Walker's discussion the previous day with his Belgian opposite number. The Belgian Minister had said inter alia that he understood that it was necessary for the UK to make a link between the agricultural price settlement and the Mandate; but that he nevertheless wished Agricultural Ministers to complete their work on the package urgently so that, as soon as the Mandate problem was solved it could be implemented. I passed on this message to the Prime Minister.

There was, as you will have seen from the reporting telegram, very little discussion of the Mandate at the European Council and virtually no reference to the Agricultural Price Review. But the line taken by President Mitterrand makes it unlikely that any solution to the budget problem will be found at the next meeting of Foreign Ministers in Luxembourg on 3 April.

In speaking to the press after the European Council, the Prime Minister stressed that the European Council had agreed last November that progress on the three chapters on the Mandate should be made in parallel. She also stressed that the size of the price increase would be a crucial determinant of the UK's contribution in future years.

/In

Enclosures-flag(s).....



In this situation the Prime Minister believes that we may be entering a period lasting some weeks in which no agreement can be reached on either the Mandate or on agricultural prices. For that reason she is most anxious that the United Kingdom should take a consistent line on the nature of the inherent link between CAP policies and our budget problem in all the relevant Mandate negotiations. I attach as an annex to this letter, a brief on this point which was agreed last week by the officials of the departments concerned.

the Minister

The Prime Minister naturally hopes that ~~you~~ will take a full part in the price-fixing negotiations in order to attain as many UK agricultural objectives as possible, including a low price increase. If the Agriculture Council reaches the point where the other nine Ministers are ready to agree, she thinks that it would be particularly helpful for your Minister, in explaining our continuing veto, to make a special point of stressing to his colleagues (and to the press afterwards) that the United Kingdom cannot agree to a price increase above the Commission's proposal of 9% on average, or to the various measures for small milk producers or Mediterranean agriculture which would increase our net contribution, on the grounds that an excessive cost would fall on British taxpayers without a budgetary corrective arrangement.

I am copying this letter to the Private Secretaries to the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer and Sir Robert Armstrong.



SPEAKING NOTE FOR USE IF IT IS SUGGESTED THAT THE UK SHOULD AGREE TO AN  
AGRICULTURAL PRICE SETTLEMENT IN ADVANCE OF AN AGREEMENT ON THE BUDGET PROBLEM

We all agreed last November that progress on the three Chapters of the Mandate should be made in parallel. The measures which are being considered in the context of the price fixing are organically linked with the proposals for CAP reform which have been discussed in the context of the Mandate. For example, the price proposals cover the treatment of Mediterranean products, help for small milk producers, modulation of guarantees for surplus products and the regime for cereals. They also have implications for the proposed guideline on the rate of growth of agricultural expenditure. We should not envisage decisions being taken on the CAP when comparable decisions on the implementation of the other Chapters have yet to be taken. Moreover, decisions taken now on the level of CAP prices will be a crucial determinant of the level of the UK net contribution in this and future years, and some of the current proposals, such as aid for small milk producers, and Mediterranean agriculture, would significantly add to the UK's budget burden. It would not be right to take decisions of this kind when we have still not agreed how that burden is to be alleviated.



SPEAKING NOTE FOR USE IF IT IS SUGGESTED THAT THE UK SHOULD AGREE TO AN  
AGRICULTURAL PRICE SETTLEMENT IN ADVANCE OF AN AGREEMENT ON THE BUDGET PROBLEM

We all agreed last November that progress on the three Chapters of the Mandate should be made in parallel. The measures which are being considered in the context of the price fixing are organically linked with the proposals for CAP reform which have been discussed in the context of the Mandate. For example, the price proposals cover the treatment of Mediterranean products, help for small milk producers, modulation of guarantees for surplus products and the regime for cereals. They also have implications for the proposed guideline on the rate of growth of agricultural expenditure. We should not envisage decisions being taken on the CAP when comparable decisions on the implementation of the other Chapters have yet to be taken. Moreover, decisions taken now on the level of CAP prices will be a crucial determinant of the level of the UK net contribution in this and future years, and some of the current proposals, such as aid for small milk producers, and Mediterranean agriculture, would significantly add to the UK's budget burden. It would not be right to take decisions of this kind when we have still not agreed how that burden is to be alleviated.



Euro Pol Budget.

file

205



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

THE MANDATE

The Prime Minister has noted without comment  
your minute A07950 of 26 March.

A. S. W. .

28 March 1982

205



SECRET AND PERSONAL

4

Prime Minister

MF

A.J.C.  $\frac{26}{3}$

Ref. A07950

MR. COLES

The Mandate

Following this morning's meeting, I have arranged for Mr. Hancock and me to meet Monsieur Attali in Brussels on Monday 29th March at 11.00 am.

2. Monsieur Attali readily agreed to this meeting; but he said that our figures had been "received very badly" at his end.

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

RA

ROBERT ARMSTRONG

26th March, 1982

SECRET AND PERSONAL



RESTRICTED



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

26 March 1982

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

*Dear Sir,*

EC BUDGET

NET CONTRIBUTIONS AND RECEIPTS BY MEMBER STATES

I understand that, during Wednesday morning's briefing meeting for the European Council, the Prime Minister asked for a table showing net contributions to, and receipts from, the Community budget by member states over a period of years. I accordingly attach such a table.

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

*Yours ever,*

*J.O. Kerr*

J.O. KERR

RESTRICTED



NET CONTRIBUTIONS (-) AND RECEIPTS (+) BY MEMBER STATE

million ecus

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
I. <u>Net positions before UK refunds</u>							(provisional)	estimated		
Belgium/Luxembourg	+135	+346	+329	+337	+610	+484	+650	+740	+860	+910
Denmark	+237	+294	+293	+381	+380	+332	+307	+340	+390	+440
Germany	-1007	-1054	-1467	-597	-1430	-1534	-1622	-1860	-1900	-2120
Greece	-	-	-	-	-	-	+126	+570	+610	+690
France	+35	+58	-310	-371	-78	+432	+678	+350	+370	+430
Ireland	+175	+155	+212	+326	+545	+644	+589	+670	+750	+820
Italy	+40	+248	+294	-334	+534	+732	+623	+930	+880	+980
Netherlands	-27	+222	+88	+41	+288	+437	+197	+260	+230	+260
United Kingdom	+104	-90	+126	-228	-849	-1527	-1548	-2000	-2190	-2410
[ Residual ]	[ +308 ]	[ -179 ]	[ +435 ]	[ +445 ]	[ - ]	[ - ]	[ - ]	[ - ]	[ - ]	[ - ]

II. <u>Net positions after UK refunds</u>	Actual	Pro- visional	As expected at time of 30 May agreement	
	1980	1981	1980	1981 *
Belgium/Luxembourg	+422	+522	+ 709	+ 846
Denmark	+299	+271	+ 389	+ 523
Germany	-1965	-2117	-1623	-1836
Greece	-	+97	[ - ]	[ - ]
France	+82	+246	- 335	- 421
Ireland	+633	+575	+ 524	+ 656
Italy	+522	+387	+ 598	+ 589
Netherlands	+359	+102	+ 347	+ 463
United Kingdom	-352	-138	- 609	- 730

Sources: Commission, 1975 - 1981; Treasury estimates 1982 to 1984.

As the residuals show, the figures for 1975 to 1978 are unsatisfactory, but they give some guidance as to orders of magnitude.

\*The residual of -90 reflected a last-minute revision to the UK figure which the Commission made without revising the figures for other member states.



*yes*

Qz.02522

MR COLES

EUROPEAN COUNCIL: 30 MAY MANDATE

At her briefing meeting on 24 March the Prime Minister asked for a draft speaking note on the Mandate for use at the European Council. This is attached in a form agreed with the Departments concerned. We believe that it will be most effective if it is confined to the main political points, and in particular to the need to make parallel progress on the three chapters of the Mandate, as agreed at Lancaster House.

2. Also attached to this minute are four Annexes as follows:-

Annex A - the text of the "non paper" by the Presidency and the Commission.

Annex B - the five essential changes that the Foreign Secretary will be seeking to make in that proposal.

Annex C - the text of a message which the Foreign Secretary is sending today to Monsieur Tindemans and Monsieur Thorn.

ANNEX D - a supplementary speaking note for the Prime Minister to use if it is suggested that the UK should agree to an agricultural price settlement in advance of an agreement on the budget problem.

D.H.

D J S HANCOCK

26 March 1982

cc: Mr Wright  
Mr Elliott  
Mr Wentworth  
Mr Rhodes

Sir K Couzens )  
Mr Littler )  
Mrs Hedley-Miller ) HMT  
Mr Edwards )

PS/Foreign and Commonwealth Secretary )  
Lord Bridges )  
Mr Hannay ) FCO  
Mr de Fonblanque )

Mr Andrews, MAFF  
Sir M Butler, UKREP



SPEAKING NOTE ON THE MANDATE

It is disappointing that the Foreign Ministers have so far been unable to complete the task which we set them last November at Lancaster House despite the series of meetings they have devoted to it. They have been unable to reach agreement on three key problems: a financial guideline on the CAP, milk and the budget problem. It would not be in the Community's interest for this deadlock to continue and it is for us, as Heads of State and Government, to ensure that the necessary instructions are given to enable substantive solutions to be found without further delay.

The Presidents of the Commission and the Council have now made new suggestions for a method to solve the budget problem. It is good that the negotiations are now seriously under way again and that the Foreign Ministers have set themselves a tight timetable for agreement both on the method and on the substantive solution of the problem. It is up to all of us to make sure that our Foreign Ministers are in a position to find an agreement both on the method and on the figures at their meeting on 3 April so as to enable early decisions to be taken on the three chapters of the Mandate in parallel as we agreed last year.

/As



As Foreign Ministers are to meet soon, I do not want to press for a discussion here and now about the details of a solution. I would like, however, to make a few general points which I hope Foreign Ministers will bear in mind.

First, we must try to give the Community a period of stability by taking this problem out of the arena of political discussion for a substantial period. A budget solution which involved either negotiations about figures every year, or another major negotiation like this one in two or three years time, would not give the Community the breathing space that it needs if it is to respond effectively to the challenges presented by its internal economic problems and an increasingly dangerous world environment.

Second, the method of correction must deal with the problem in its entirety and must be sufficiently flexible to ensure a fair outcome if circumstances change.

Third, the scale of compensation must be fair. As a less prosperous Member State, the UK could reasonably expect to be a net beneficiary of the Community's financial arrangements, especially in view of the common commitment to the convergence of the economies of the member states. We realise that such a big change

/in



in the present financial pattern would create problems for our partners and we are ready to take account of this. But we can see no justification for the United Kingdom being more than a very modest net contributor.

These seem to me to be essential political points which Foreign Ministers will need to bear in mind. I hope that we can all agree that it is in the interests of the Community that all aspects of the Mandate should now be resolved with all possible speed and that we should instruct Foreign Ministers accordingly.



NON PAPER

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

1. The Community will grant compensation to the United Kingdom for 5 years, starting in 1982.
2. The basic amount of this compensation will be set at a uniform level for 1982, 1983 and 1984 of  $\frac{1}{x}$  million ECU  $\frac{1}{y}$ . This amount represents  $y$  % of the objective indicator for 1981. If this ratio between the compensation and the objective indicator varies in 1982, 1983 or 1984 by more than 10 %, a correction will be made on the basis of a Commission proposal, on which the Council will take a decision by a qualified majority.
3. A further correction will be made if the United Kingdom's V.A.T. share exceeds its GDP share. This compensation will represent  $z$  % of the difference.
4. The amount of compensation for 1985 and 1986 will be decided on by the Council before the end of 1984 acting unanimously on a proposal from the Commission.



ESSENTIAL CHANGES IN THE "NON-PAPER"

- a. A genuine five-year solution and not one which would involve a fresh negotiation in the third year.
- b. A review at the end of the period of agreement.
- c. A method of dealing with changes in the size of the receipts gap (as measured by the Commission's objective indicator) which is both more flexible and more automatic.
- d. A method of dealing with the whole of the contributions gap and not just part of it.
- e. Figures which produce an acceptable net contribution for the UK after compensation.



Classification and Caveats

CONFIDENTIAL

Precedence/Deskby

IMMEDIATE

1 ZCZC

2 GRS

3 CONFIDENTIAL

4 FRAME ECONOMIC

5

6 FM FCO 261145Z MARCH 82

7 TO IMMEDIATE ~~BRUSSELS~~ BRUSSELS

8 TELEGRAM NUMBER

IMMEDIATE URREP  
BRUSSELS,

9 AND TO PRIORITY ALL EC POSTS

10 30 MAY MANDATE

11 1. Following is the text of a message from me to M. Tindemans  
12 about the Presidency/Commission text (UKREP Telno 1188).

13 Please arrange delivery urgently. Please also ensure  
14 that M. Thorn receives a copy. Other posts should make these  
15 points at a senior level to Foreign and Finance Ministries  
16 after the European Council but before 3 April.

17 BEGINS

18 I am most grateful to you and Gaston Thorn for the efforts  
19 you made at our meeting on 23 March to give an impulse  
20 to the search for a settlement of the 30 May Mandate. I  
21 particularly welcome your initiative in putting forward  
22 your joint ideas for the method of deciding the amount of  
23 compensation to be paid to the UK. As I said during the  
24 meeting, there are a number of elements in the text which  
25 I welcome, but some difficulties. We shall want to examine

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File number	Dept ECD(I)	Distribution FRAME ECONOMIC ECD(I)
Drafted by (Block capitals) G H FRY		
Telephone number 233-5701		
Authorised for despatch		
Comcen reference	Time of despatch	



OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

IMMEDIATE

Page

2

1 <<<<

2 these carefully, but I am sure that your proposals will pro-  
 3 vide a good basis for our discussion on 3 April. Our con-  
 4 sideration of them will naturally be greatly helped by  
 5 having the illustrative figures which the Commission agreed  
 6 to provide, and I hope that these will be made available in  
 7 good time.

8 I thought that in making your own preparations for our next  
 9 meeting you and Gaston Thorn might find it helpful if I  
 10 gave you an account of our main preoccupations with the method  
 11 which you have put forward.

12 Let me start with the question of duration. I naturally  
 13 welcome your suggestion that this should be five years. I am  
 14 sure that it is right to take this issue right out of Com-  
 15 munity politics for a substantial period so that we can con-  
 16 centrate on the other urgent tasks which face us. To achieve  
 17 this objective, which I am sure that we all share, we must  
 18 however have an arrangement which genuinely provides a five-year  
 19 breathing space. I am concerned that the ideas now on the table  
 20 would not give us that, and in particular I have great doubts  
 21 about the idea of fixing the method of deciding the amount of  
 22 compensation for the first three years only, so that we would  
 23 need to have a completely fresh negotiation to decide on the  
 24 arrangements for the last two years.

25 As regards the method you propose for applying the objective  
 26 indicator, this is rather complicated and I would prefer some-  
 27 thing simpler. I agree with you that it would be insufficient  
 28 simply to specify fixed sums of compensation. There must be  
 29 provision for adjusting the amount of compensation in the  
 30 light of variations in the objective indicator, and I accept  
 31 that, unlike the 30 May 1980 arrangements, the possibility  
 32 that the actual gap will turn out lower than expected should  
 33 be allowed for as well as the possibility of its being higher. ~~ends~~

34 ~~CARRINGTON NNNN~~

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Catchword **AT THE MOMENT**  
~~END~~ **3** ~~END~~



OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

IMMEDIATE

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2 At the moment I am inclined to think that it may rise, but  
 3 if, as happened in 1981, CAP expenditure did not grow as  
 4 expected, the gap could well turn out lower. But I also  
 5 think that if we are to avoid an annual negotiation over the  
 6 figures - which I think we all believe would be divisive  
 7 and damaging to the Community - then we shall need to have a  
 8 method of adjustment which is clear, precise and of direct  
 9 application. I fear that the present suggestion of proposals  
 10 on each occasion from the Commission followed by decisions by  
 11 the Council would not prove satisfactory in practice, and I  
 12 do not think it would be right to leave unadjusted a divergence  
 13 of as much as 10% in either direction. What I would propose  
 14 therefore is that on and before 3 April we should all bend  
 15 our minds to the task of finding an alternative method which  
 16 would enable us to get away from annual negotiations but at  
 17 the same time give the certainty that even if there is some  
 18 unexpected variation in the outturn the result will be  
 19 equitable for all concerned. I am sure that something of  
 20 this sort can be devised.

21 At our meeting on 23 March I explained that the contributions  
 22 gap was an important element in the UK problem and circulated  
 23 some figures designed to illustrate this. I am pleased that  
 24 in paragraph 3 of your non-paper you have put forward a sugges-  
 25 tion which is clearly designed to take some account of this  
 26 problem, but your proposal would not in my view provide an  
 27 adequate solution. What is needed is an objective indicator  
 28 which measures the whole of this problem rather than one which  
 29 measures only a part of it. In saying this, I am not arguing  
 30 that the UK should receive 100% compensation for the whole  
 31 gap; I accept that we should receive an agreed percentage  
 32 less than 100%. But it should be a percentage applied to  
 33 the whole extent of the problem. Perhaps I should add that  
 34 I do not understand the feeling sometimes expressed that an

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/indicator



OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

IMMEDIATE

Page

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1 <<<<  
 2 indicator measuring the whole gap would in some way be con-  
 3 trary to Community principles. Such an indicator is not a  
 4 new idea; there are precedents both in the Dublin Financial  
 5 Mechanism and in the agreement of 30 May 1980. And customs  
 6 duties and agricultural levies collected in the UK, even  
 7 though they are the Community's own resources, do place a  
 8 burden on UK taxpayers and consumers in just the same way as do  
 9 VAT contributions. It is the disproportionate amount paid  
 10 under both headings which constitutes an important part of  
 11 the UK's budget problem.  
 12 Finally, as I said on 23 March, I attach importance to  
 13 including provision for a review of the operation of the  
 14 arrangement towards the end of the 5 year period. This need  
 15 not of course prejudge whether the arrangement or something on  
 16 similar lines will continue after the period. That would  
 17 depend on the situation at the time. No-one would be more  
 18 delighted than the British Government if by then the problem  
 19 had ceased to exist and there were no need for any corrective  
 20 arrangements. But unfortunately experience suggests that we  
 21 cannot afford to make that assumption. It is inconceivable  
 22 that if the problem continued the Community should simply  
 23 turn its back on it and leave it unresolved, and I therefore  
 24 think that we must find some language about a review, perhaps  
 25 on the lines of the text of 18 January.  
 26 I hope that you will find it useful to have these comments in  
 27 advance of our meeting on 3 April. I am particularly glad that  
 28 your proposals will provide a basis on which we can on 3 April  
 29 try to agree not only on a method but on a full settlement  
 30 including the figures. I think that we are all increasingly  
 31 aware of the need to find an early solution of these problems  
 32 and of the risks if we do not. I shall be approaching our next  
 33 meeting in a spirit of determination to find a basis for  
 34 agreement.

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 telegram

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Catchword

/ENDS



SPEAKING NOTE FOR USE IF IT IS SUGGESTED THAT THE UK SHOULD AGREE TO AN  
AGRICULTURAL PRICE SETTLEMENT IN ADVANCE OF AN AGREEMENT ON THE BUDGET PROBLEM

We all agreed last November that progress on the three Chapters of the Mandate should be made in parallel. The measures which are being considered in the context of the price fixing are organically linked with the proposals for CAP reform which have been discussed in the context of the Mandate. For example, the price proposals cover the treatment of Mediterranean products, help for small milk producers, modulation of guarantees for surplus products and the regime for cereals. They also have implications for the proposed guideline on the rate of growth of agricultural expenditure. We should not envisage decisions being taken on the CAP when comparable decisions on the implementation of the other Chapters have yet to be taken. Moreover, decisions taken now on the level of CAP prices will be a crucial determinant of the level of the UK net contribution in this and future years, and some of the current proposals, such as aid for small milk producers, and Mediterranean agriculture, would significantly add to the UK's budget burden. It would not be right to take decisions of this kind when we have still not agreed how that burden is to be alleviated.



26 MAR 1982



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HL 3



CC FCO  
HUNT

**10 DOWNING STREET**

*From the Private Secretary*

SIR ROBERT ARMSTRONG

Bilateral talks with the Elysee

The Prime Minister held a meeting this morning to consider the note attached to Mr. Hancock's minute of 25 March. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, you and Mr. Hancock were present.

With regard to paragraph 7 of the note, it was agreed that at your next meeting with Monsieur Attali you should make it plain that Ministers considered that an eventual solution to the problem of the UK's contribution to the Community budget should be based on a percentage sharing of our unadjusted net contribution with the Community paying 90%. It was further agreed that you could float on a personal basis the thought that it might be possible to persuade Ministers to go down to 85% in the context of a solution which was otherwise satisfactory but you would not give the impression that this is a possibility that has already been considered by Ministers.

The third and fourth questions in paragraph 16 of Mr. Hancock's minute were not discussed.

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

A. J. COLES

26 March 1982



SECRET AND PERSONAL

Qz.02519

MR COLESBILATERAL TALKS WITH THE ELYSEE

--- I attach a note for consideration at the Prime Minister's meeting at 9.45 am tomorrow, Friday 26 March. I have written it following discussion with Lord Bridges of the Foreign Office and Mr Littler of the Treasury, but neither Department is committed by what it says.

I am sending copies to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, Sir Robert Armstrong, Lord Bridges and Mr Littler.

D.H.

D J S HANCOCK

25 March 1982

SECRET AND PERSONAL



SIR ROBERT ARMSTRONG'S MEETING WITH MONSIEUR ATTALI  
IN BRUSSELS ON MONDAY 29 MARCH

Note by the Cabinet Office

1. Cabinet Office, Foreign Office and Treasury officials have discussed the implications of Sir Robert Armstrong's talk with Monsieur Attali in London on 24 March - Sir Robert Armstrong's minute to the Prime Minister of 24 March refers. The following analysis has been prepared by the Cabinet Office as a basis for consideration at the Prime Minister's meeting at 9.45 am on 26 March.

General Reaction

2. Monsieur Attali went further in our direction than we expected. The pressure on the French government for a farm price settlement is severe, as is illustrated by the recent demonstrations by farmers in Paris. National aids, according to Monsieur Attali, would be a good deal more expensive than satisfying the United Kingdom's requirements on the budget. They would also precipitate a major Community crisis as President Mitterrand must know. It is therefore reasonable to assume that President Mitterrand wants to do a deal with us. Sir Robert Armstrong should therefore confirm the tentative arrangement to meet Monsieur Attali in Brussels on Monday 29 March and should explore further the scope for compromise.

Technical Aspects

3. Sir Robert Armstrong should encourage Monsieur Attali to continue to discuss the essence of the problem and not at this stage to get into detail about how the solution could be implemented by means of a revised version of the Presidency and Commission scheme. If the United Kingdom and France were able to agree on the substance of a solution, the conversion of it into a negotiable scheme should not present insuperable difficulties. (See section below on handling if agreement seems possible.)



Figures

4. Duration, the need for a review at the end of the period and the "over payment" do not seem to be problems, but Ministers need to decide whether to make an offer on figures.

5. Monsieur Attali is not yet committed to discussing a solution expressed in terms of a percentage sharing of our unadjusted net contribution between the Community and the UK. But he has at least indicated a willingness to do so even though coupled with a hint that the President would expect the percentage refund to fall over time. Our aim should be to commit him to a percentage-sharing formula and to get rid of the degressive notion.

6. If President Mitterrand stuck firmly to his position that the cost to the French budget must not exceed the cost of the 30 May agreement, there would be no hope of a solution acceptable to the UK. Sir Robert Armstrong should therefore begin the meeting on 29 March by stressing the difficulties for the UK of anything less than a fixed 90% share. He could mention the following points in support of this case:-

- (i) The settlement would be confined to the allocated budget. The United Kingdom's share of the unallocated budget was substantial and likely to rise. British Ministers would have to continue to defend the cost to the UK of that element even with a 90% refund for the allocated budget.
- (ii) The delay in the payment from one year to the next meant that the figures shown in our Public Expenditure White Paper were always larger than the figures mentioned in negotiations in Brussels. This added to the real as well as the apparent cost and thus added to the political problem of defending the settlement in the UK.
- (iii) The solution would do nothing about resource transfers outside the budget and these were very much a part of the British government's political problem.



The purpose of these arguments would be to persuade Monsieur Attali that it would be just as difficult for the British government to move down from a fixed 90% share as it would be for President Mitterrand to move up from a 70% share.

7. Ministers should now decide whether Sir Robert Armstrong be authorised to make a new offer in the range 90% - 70% in return for:-

- (a) A fixed percentage, ie no degressivity.
- (b) No second thoughts on the "over payment".

8. If Monsieur Attali said that degressivity was a necessary condition for a percentage-sharing formula then Sir Robert Armstrong might offer to consider inventing a presentational device which would enable the French to say that the solution was degressive, on the clear understanding that it gave us the same scale of refund - ie that the basic percentage refund would be that much higher.

9. One possibility is an idea worked out by officials in the German Ministry of Foreign Affairs, which seems to be intended to enable the other Member States to say that the scheme had degressive elements without obliging the United Kingdom to agree to a declining percentage. This is that some small part of the gap to be filled should be taken out of the sharing arrangement so that the United Kingdom would pay a 100% of it. The amount of this arbitrary lump sum would rise slowly over the succeeding years at an annual rate intended to symbolise the United Kingdom's integration in the Community. The growth rate suggested by the German officials concerned was that of UK trade with the Community between accession and 1981. This works out at about 4% a year and, provided the initial lump sum were small enough, it would be possible to incorporate such a feature in the final scheme without depriving the United Kingdom of total refunds of adequate size which would increase roughly in line with the increase in our unadjusted net contribution.



10. If the degressivity point were critical to an agreement, some presentational device of this sort could no doubt be worked out consistently with the constraint defined in paragraph 8 above - namely that the amount of money coming to the UK should not be reduced by the device so that, the more it reduced our refund, the higher the initial refund percentage would have to be.

Financing

11. The problem of financing any agreed solution will have to be sorted out because:

- (i) the cost to France will be greatly affected by what the Germans agree to pay; and
- (ii) the United Kingdom cannot accept any suggestion that our refunds be reduced if the Community budget runs up against the 1% ceiling.

Monsieur Attali referred to the first of these problems on 24 March but he did not mention the second. It might be imprudent to lay too much stress on it at the next meeting. But we must secure his assurance that France will work with us to ensure that any remaining problems about finding the money for the agreed solution are amicably solved within the Community framework.

Presentational arguments that could be used in France

12. As part of the process of persuading Monsieur Attali to accept the offer, Sir Robert Armstrong could call attention to the following possible arguments which the French government could use to justify the cost of the solution to the French budget:-

- (i) The cost would be less than national aids and agreement with the UK would avoid a major Community crisis. It was not just a case of "paying the United Kingdom for peace on farm prices"; it was a question of finding a compromise to avoid a crisis that might very well wreck the Community as a whole.

/(ii)



SECRET AND PERSONAL

- (ii) The solution would be less favourable to the United Kingdom than the arrangement that President Giscard negotiated and it was tied up in such a way that there could not possibly be a repetition of the "over payment" to the United Kingdom.
- (iii) France was not doing too badly out of the Community - the unexpected benefit that the United Kingdom received in 1980 and 1981 had to be put in the perspective of the unexpectedly favourable out-turn of the budget arrangements for France in those years.
- (iv) The 1982 price settlement was much more generous to French farmers than the British Government had intended.
- (v) Getting Community assistance for small milk producers was a major achievement for the French government in the Mandate negotiations.

Procedure for handling if agreement seems possible

13. If at Monday morning's meeting it seems that an agreement will be negotiable, then Sir Robert Armstrong should ask Mr Hancock to prepare a note defining the proposed agreement and to clear it with Monsieur Attali during the course of the afternoon so that the same description of the proposed agreement would be shown to the Prime Minister and the President overnight. We would have to make it clear to the French that they must help us sell the solution to others as soon as it had been accepted by the Prime Minister and the President. We should encourage them to speak to the Germans first themselves, or at least to agree to confirm what we said. The Italians should also be informed. The French should be asked to agree that the Secretary General of the Commission, Monsieur Noel, be consulted in confidence about how the Presidency/Commission scheme might be adapted so as to provide a vehicle for the implementation of the solution.



Procedure if no agreement seems possible

14. In this case, Sir Robert Armstrong should note with regret that agreement seemed impossible, but say that nonetheless the Prime Minister would be grateful if Monsieur Attali would explain the offer personally to the President. If Monsieur Attali's reaction made it quite clear that, even so, we were at the end of the road, then (but not otherwise) Sir Robert Armstrong should speak on the following lines.

15. The British Government would greatly regret it if the French government decided to introduce national aids. This would create a major crisis in the Community and put other Member States, who could not afford national aids, into an exceedingly difficult position. But the British Government was not prepared to compromise further on the budget issue in order to avoid the crisis. British Ministers would now consider how best to protect the national interest and this might involve actions which would also damage the Community. Monsieur Attali had been kind enough to tell us, in confidence, about the French government's contingency plans if no agreement could be reached. He would not be surprised to learn that the British Government also had contingency plans. We had not mentioned them before since we had been determined to do everything possible to secure a negotiated settlement and it would have seemed aggressive to talk about what we might be obliged to do if none proved possible. But President Mitterrand should take full account of the significance of the fact that the UK had been thinking about the possibility of an unresolvable crisis for 3 years. Like France, we were well prepared for a crisis.

16. A further talk should then be arranged the following day to see whether the intervening night had produced any grounds for hope that the most serious crisis in the history of the Community could be avoided.



Main points for decision by Ministers

1. Should Sir Robert Armstrong now confirm the arrangement to meet Monsieur Attali on 29 March (para 2)?
2. Should he make a new offer on figures and, if so, what (para 7)?
3. Should he, if necessary, offer to explore the possibility of a presentational device on the condition specified in para 8?
4. In the event of failure, can Sir Robert Armstrong speak as suggested in para 15 with the full authority of Ministers?



*Europe Budget*

AO.7916

PRIME MINISTER

BILATERAL TALKS WITH THE ELYSEE

Monsieur Attali called on me and Mr Hancock at the Cabinet Office this morning as arranged. He came alone. He stressed that the only people aware of these talks in France, apart from the President and himself, were Messieurs Cheysson, Delors and Beregovoy. He said it would be disastrous from his point of view if the figures mentioned became known elsewhere in the French administration. I assured him that everything he said would be treated by us in complete confidence.

2. We agreed to refrain entirely from debating points of principle and to confine ourselves to exploring the political requirements on each side so as to discover whether there was scope for agreement. We also agreed to confine ourselves to the essential issues and we did not consider how any agreement between you and the President might be reconciled with the new scheme tabled in Brussels on 23 March which, Monsieur Attali told us, had come as a complete surprise to the French Government. During the course of our discussion Monsieur Attali made it clear that President Mitterrand would be willing, in the context of an agreement, to concede the following points:-

/(i)



- (i) Duration - he accepted the need to straddle the next British general election. He was not specific about the duration but it was plain that a 5 year settlement would not cause major problems.
- (ii) A review - President Mitterrand would accept a review at the end of the period without commitment to the outcome of it.
- (iii) The "over payment" in 1980 and 1981 - if the new figures were right then the French government would forget about the over payment; but Monsieur Attali gently and courteously reminded us that the President was under considerable pressure in France to deduct 900 million ecu from the amount that might otherwise be agreed for 1982 and subsequent years.

3. We spoke frankly about figures and established that a substantial gap exists between the political requirements of the two governments. I said that, although the United Kingdom considered that on merits it should be a net beneficiary from the budget, the Government was prepared to be a modest net contributor. The United Kingdom's political requirement was that the new arrangement should be substantially better than that agreed on 30 May 1980 which for convenience might be characterised as a sharing of the unadjusted net contribution between the United Kingdom and the



SECRET AND PERSONAL

Community in the ratio of 1:2. I mentioned various figures for the new division in the range 5:95 to 10:90.

4. Monsieur Attali said that the French President's political requirement was determined by the fact that he had denounced the 30 May Agreement as a defeat for France and accused his predecessor of paying too much to the United Kingdom for "peace" over farm prices. For that reason, the new agreement had to cost the French budget less than the 30 May Agreement; and this political requirement was now reinforced by the fiscal difficulties faced by the French Government. The 30 May Agreement had cost the French budget 2.1 billion French Francs for 1980 and 2.5 billion French Francs for 1981. If the 1981 figure was accepted as definitive, the maximum net refund that the United Kingdom could receive, assuming no great change in the amounts paid by other Member States, would be 1200 million ecu. At first Monsieur Attali said that this figure was very much the upper end of the French range of possibility and he told us that some officials in the responsible Departments in Paris were advocating a maximum of 700 million ecu. But later he dropped a hint without commitment that the President might be willing to go up to 1300 million ecu and then to see this amount increase in line with inflation in the years following 1982.

/5.



5. Monsieur Attali expressed interest when it became apparent that we were thinking more in terms of percentage shares of the United Kingdom's unadjusted net contribution than in terms of absolute amounts for the refunds. He noted that a 1300 million ecu would be just over 70% of an unadjusted net contribution of 1800 million ecu, the figure assumed by the French officials for the United Kingdom in 1982; and he enquired whether you would be prepared to contemplate a falling percentage share over the period of the agreement. I asked whether he meant a percentage of, say, 95% in 1982 falling to something less in later years. He replied that 95% in 1982, requiring a refund of over 1700 million ecu, would be entirely outside the French President's room for manoeuvre, since it would oblige France to pay far more than President Giscard had agreed to pay.

6. On farm prices, Monsieur Attali said that the French government's requirement was for an average price increase of 11½% in addition to a devaluation of the Green Franc to eliminate the existing MCA. I detected no hint that he was privately calculating for any additional advantage from a further devaluation of the French Franc. He said that, if no agreement were reached, the French government would pay national aids to make up the difference. They were ready to face a crisis in the Community over this but they did not wish to blame the United Kingdom for it. They



SECRET AND PERSONAL

recognised the problem as a Community problem. The cost to the French budget of national aids would be 5 billion French Francs a year, ie twice what they were prepared to offer to solve the British budget problem.

7. This last figure was volunteered by Monsieur Attali when he explained that Monsieur Cheysson would not be able to agree to a budget settlement on 3 April if the price package had not been agreed by the Agricultural Council the day before. (He stressed that in public the French government would deny any link; but in fact there was one.) He said that the French government could obviously not announce an agreement costing France 2.5 billion French Francs a year the day after incurring a bill of 5 billion French Francs a year partly because of the attitude of the United Kingdom. I thought that I could detect an extremely indirect hint that, if the government were prepared to help France avoid a bill of 5 billion French Francs, they might be able to go further than 2.5 billion in the budget context.

8. At the end of our meeting I undertook to report what he had said to you and he to report what I had said to the French President. We tentatively arranged to meet again in Brussels on Monday before lunch to see whether any further movement towards a solution might be possible. I have undertaken to telephone him on Friday afternoon to confirm or cancel this arrangement.



SECRET AND PERSONAL

9. Mr Hancock will be arranging a discussion with the Foreign Office and Treasury tomorrow and a note will be submitted about what I might say to Monsieur Attali on Monday for consideration by you, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, to whom I am sending copies of this minute.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

24 March 1982

SECRET AND PERSONAL



*Envoys Budget*



Treasury Chambers, Parliament Street, SW1P 3AG

D C R Heyhoe Esq  
Private Secretary to the Lord President of the Council  
Privy Council Office  
Whitehall Place  
LONDON  
SW1

*Mr. Pattison*

*Cover in quarters  
briefing, as antidote  
to poll on EC  
withdrawal?*

24 March 1982

*Dear David,*

*A.J.C. 25.*

EC BUDGET REFUNDS: ANNOUNCEMENT OF FURTHER SUPPLEMENTARY MEASURES SUPPORT

*will proceed if required*

As promised in my letter of 23 March, I am writing to confirm that the Commission are expected to announce the further supplementary measures support in Brussels at 11 o'clock our time tomorrow. We have therefore arranged for our Press Notice to be issued at 4.30pm tomorrow.

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

*Yours ever,  
David*

D L WILLETTS  
Private Secretary



## Foreign Affairs Council (Meeting)

3.32 pm

**The Lord Privy Seal (Mr. Humphrey Atkins):** With permission, Mr. Speaker, I will make a statement on the Foreign Affairs Council which took place in Brussels on 22 and 23 March. My right hon. Friend the Secretary of State for Trade and I represented Her Majesty's Government on Monday and my right hon. and noble Friend the Foreign Secretary was our representative yesterday.

The Council decided that the Community should sign the sixth International Tin Agreement. It and member States agreed that they should make it clear at the time of signature that the agreement should not be used to facilitate or support the manipulation of the market.

Ministers examined the question of relations with Japan and endorsed the view that these relations remained a matter of serious concern. They agreed a comprehensive approach to these problems, which includes continued efforts to persuade Japan to modify its trade and economic policies, a renewed call for tangible assurances of effective moderation of Japanese exports in sensitive sectors; and agreement that the Community should initiate consultations with Japan about her low level of imports under the dispute settlement procedure of article XXIII of the GATT. I am arranging for a copy of the text of the Council conclusions to be placed in the Library of the House.

The Council finalised the text of the intergovernmental agreement setting up the European Foundation. Foreign Ministers of the member States will be asked to sign the agreement next week.

The negotiations for Spain's accession to the Community continued with a further meeting at ministerial level. I am glad to report that agreement was reached on almost all the outstanding points in six further areas of the negotiations. We have now had constructive meetings in the last few weeks with the Spanish and with the Portuguese and I very much hope that these will lead to more rapid progress being made in the negotiations with both countries.

During the Council the Greek Minister delivered to the Presidency a memorandum on Greece's future relations with the European Community, and announced Greece's intention to raise the matter at the European Council next week.

The whole of yesterday's Council was devoted to a detailed discussion of the 30 May mandate, and in particular the problem of Britain's budget contribution. The Presidents both of the commission and the Council put forward on a personal basis some new ideas on a method of dealing with the budget problem. These were greeted with real interest by Ministers of the member States, who agreed not to make any substantive comments at that meeting but to discuss them further at a special meeting of the Foreign Ministers to be held on Saturday 3 April.

**Mr. Eric S. Heffer** (Liverpool, Walton): Is the Lord Privy Seal aware that his statements to the House, especially on issues such as the Budget, are quite amazing, as they never really tell us anything? It would be useful if, even at this late stage, the right hon. Gentleman could read into the record what was printed on the front page of *The Times*, because that newspaper seems to be much better informed on these matters than are hon. Members.

Surely it is time that hon. Members had some idea of precisely what is being proposed in relation to the budget. The danger is that we shall end up with a shoddy deal which will again involve another retreat and possibly a sell-out by the Government.

Is the right hon. Gentleman aware that we have read in some newspapers that Mr. Brian Lenihan, the Irish Foreign Minister, said that Lord Carrington had accepted that there would be no linkage between farm prices and the budget? Is the right hon. Gentleman aware that we have also been told that the Foreign Secretary did not accept that? I, and I am sure the House, would like to know, because it would be wrong if there were agreement on the budget, resulting in a shoddy deal and, at the same time, an increase in the price of food at the farm gate, which would increase the price of food to British people in quite a big way.

Everyone will agree that the signing of the sixth International Tin Agreement is not something that one would wish to oppose, but can the Lord Privy Seal tell us whether that agreement will be helpful to the peoples of the countries involved, particularly the developing countries and not merely the big combines, which obviously are involved?

Nor do I believe that anyone will oppose the European Foundation, but will it be turned into a purely propaganda foundation or machine for the benefit of the European Community rather than be the older type of Commonwealth foundation, which was much better and more helpful to the peoples of the Commonwealth? I do not have much to ask about the other points.

**Mr. Atkins:** The hon. Member for Liverpool, Walton (Mr. Heffer) has quoted from newspapers. Surely by now he knows better than to believe all that he reads in the newspapers. If he does not, he should.

The hon. Gentleman asked about a linkage between the agricultural price settlement and discussions relating to the budget. The mandate negotiations cover the three chapters of the mandate—the development of Community policies outside agriculture, the reform of the common agricultural policy and the budget. It has been accepted all along by all the Governments that the three chapters should be carried forward in parallel. The present discussions about agricultural policy and budget reform are going forward together and will continue in parallel, as everyone has agreed. They are linked in that way.

**Mr. Dennis Skinner** (Bolsover): So they are linked.

**Mr. Atkins:** They are linked in that way. [HON. MEMBERS: "Ah".]

The hon. Member for Walton asked whether the tin agreement would be useful to third countries. I believe that it will, and so do they, as they have been urging us to sign the agreement, which we shall now do.

The hon. Gentleman also asked about the European Foundation. I remind him that the decision in principle to set up the foundation was taken in 1978 by the Labour Government, of which he was a member.

**Mr. Skinner:** He got the sack.

**Mr. Atkins:** The objectives of the foundation are to seek practical ways to improve mutual understanding among the peoples of the Community. I am sure that the improvement of mutual understanding between people anywhere is an objective to which the hon. Member for Walton would subscribe.



**Mr. Peter Emery** (Honiton): Does my right hon. Friend agree that for many years Foreign Ministers at the Brussels meetings have expressed their concern about the trade and economic expansion of Japan and the restrictions on imports into Japan? Does he agree also that a stage must ultimately be reached when, if we cannot secure agreement to take positive action together as a Community, unilateral action should be taken by Britain?

**Mr. Atkins:** Yes, Sir, but the Community as a body is more powerful than this country alone. I believe that the right course of action is that which we have urged upon the Community—to take action under article XXIII of the General Agreement on Tariffs and Trade with a view to persuading Japan to liberalise her import policy and also her economic policy.

**Dr. David Owen** (Plymouth, Devonport): Does the Lord Privy Seal agree that the time has come to set a deadline, as the discussions have gone on for many years and the import restrictions in Japan are highly damaging to trade? Does he accept that Japanese export penetration in certain key industries is now extremely damaging to many European countries?

On the question of the Budget, does the Lord Privy Seal accept that we support the Government's determination to secure a fair deal for Britain and their determination to link the budget contribution to reform of the common agricultural policy?

**Mr. Atkins:** I am grateful for the right hon. Gentleman's support on the last two matters. With regard to Japan, I believe that the Community's current move to use article XXIII of the GATT procedure is the most useful course of action that we can adopt. There is no set timetable for the procedure, but we intend to proceed as quickly as we can.

**Mr. Skinner:** Will the Lord Privy Seal tell us a little more about such mundane matters as whether he and his colleagues agree with his old friend Sir Henry Plumb, the leader of the Tory delegation at the European Assembly, that the 16 per cent. increase sought by the farmers in the price review should be accepted? Will he bear in mind that all along the line Conservative Ministers have told nurses and other workers in this country that they cannot have more than 4 per cent. or, in some cases, more than 6 per cent., when at the same time over in the Common Market the Government seem to be backing an inflationary increase to the tune of 16 per cent? Instead of coming to the House with a load of mumbo-jumbo, will the right hon. Gentleman tell us exactly what the Government are up to? That is his job. We know that he has not the ability to do it, as he showed in relation to Northern Ireland, but could he at least have a try?

**Mr. Atkins:** I am sure that the hon. Gentleman will seek an opportunity later today—whether he will get it is not a matter for me—to express his views on agricultural policy.

Several hon. Members *rose*—

**Mr. Speaker:** Order. I propose to call those hon. Members who have been rising in their places.

**Mr. John Farr** (Harborough): Will my right hon. Friend assure the House that he is aware of the situation with regard to Spain's accession to the Community? Is he aware that several major domestic industries are likely to

face insufferable competition when that comes about? Will he give an assurance that the longest possible transitional arrangement will be made and that he will urge that policy upon his colleagues in Europe?

**Mr. Atkins:** No, Sir, I cannot do precisely that, as there are certain areas in which a transitional derogation of Community rules for Spain would not be of advantage to this country. These are matters for detailed negotiation and discussion in a wide range of areas. We had such a discussion on six areas on Monday this week, and there are more to be covered. We all wish to make progress on this issue, but we wish to ensure that when Spain joins the Community she accedes to its practices and rules as quickly as is reasonably possible.

**Mr. Russell Johnston** (Inverness): Did the Council have before it the decision of the European Parliament on 10 March to recommend a uniform electoral system for the 1984 elections to the European Parliament? When does the right hon. Gentleman expect the Council to consider that?

**Mr. Atkins:** The Council did not have that proposition before it at its last meeting. I do not yet have the agenda for the next meeting, but I take note of the hon. Gentleman's point.

**Mr. Kenneth Lewis** (Rutland and Stamford): Is my right hon. Friend aware that every time he makes a statement of this kind it contains something about discussions with Japan? We seem to make no progress on this question. How many more businesses will fail in this country and in Europe as a result of import penetration—while the Japanese still refuse to allow imports into their country—before Britain or Europe takes action? Does my right hon. Friend agree that this has gone on for far too long?

**Mr. Atkins:** Yes, it has. That is why I am glad to tell the House that we are taking the action that I have described. It is necessary that we exert the maximum pressure on Japan to liberalise its trading policy, which is what we all want.

**Mr. Douglas Jay** (Battersea, North): What will be the United Kingdom's net contribution to the EEC budget in 1982-83?

**Mr. Atkins:** As yet that is not determined, so I cannot give an answer, but the right hon. Gentleman will note that our contribution last year was £56 million.

**Sir Anthony Meyer** (Flint, West): Does my right hon. Friend agree that the most important aspect of settling the budget issue is to secure a settlement that will extend well into the future, so that the Community can concentrate on doing what it should be doing—using its enormous bargaining power to secure a proper settlement of affairs with Japan?

**Mr. Atkins:** Yes, I agree that it is highly desirable for the Community to direct its attention to the really serious problems—not only trade with Japan, but unemployment and major structural, industrial and social problems. If, as I hope, we can achieve a settlement of our budget problems and a reform of the CAP, we shall be able to direct our attention to those serious and important matters.

**Mr. Nigel Spearing** (Newham, South): Reverting to the subject of the European Foundation, does the Lord Privy Seal recall that in 1978, in a debate very late on a



Friday afternoon, it emerged that the purpose of the foundation was to further "European Union"? Does he agree that such purposes are outside the remit of the Treaty of Rome? Will he therefore confirm that there will be a separate treaty for the basis of this so-called foundation? When will that treaty come before the House, and how much is Britain's contribution expected to be?

**Mr. Atkins:** It is not a question of a treaty. It is an inter-governmental agreement based on the principles that were approved by the House in 1978. The aims of the foundation are to seek practical ways to improve mutual understanding between the peoples of Europe, to promote a better understanding of the European cultural heritage, and to promote a greater understanding of European integration, from both inside and outside the Community. That is what was approved in 1978. If the agreement is signed next week, as I understand it will be, there will be a requirement for 4 million ecus over a period of four years, and we shall bear our share of that.

**Mr. Tony Marlow** (Northampton, North): Can my right hon. Friend explain why, when we are providing a market for expensively produced European agricultural surpluses, without which market, instead of 100,000 French peasants swarming around the streets of Paris there would probably be 1 million; why, when we are providing a market for surplus European manufactures, which in the last two months of last year was almost as much in terms of trade deficit in manufactures as in a whole year with Japan; why, when we provide security of supply in oil; why, when we all enjoy the dynamic benefits of European membership, we in this country pay one penny net into the European budget? Why is this done according to some

obscure mathematical algebraic formula which very few people, let alone a senior wrangler at Cambridge, can understand?

**Mr. Atkins:** That has been the basis of our discussions during the past few months about our contribution to the budget. We have reached the position where our contributions are far in excess of our receipts. We have been discussing this matter with our European partners since May 1979. We achieved a useful result in May 1980, and I have no doubt that we shall achieve useful results in the coming spring.

**Mr. David Myles** (Banff): On the subject of trade with Japan, does my right hon. Friend agree that it would be greatly to the benefit of us all, including Japan, if that country were to reduce its high import tariff on Scotch whisky?

**Mr. Atkins:** Yes, Sir. I agree with my hon. Friend. The tariff on Scotch whisky is much too high. Scotch whisky is preferred in Japan to Japanese whisky, for obvious reasons, but the tariffs, even though they have been reduced by a minimal amount, are too high. This is one matter on which we seek Japanese co-operation.

**Mr. Richard Alexander** (Newark): My right hon. Friend's report was, as usual, quite fascinating, but will he say whether the Foreign Ministers discussed the Middle East? Do the Foreign Ministers consider that they have a role to play as honest brokers in what is undoubtedly an escalating and worrying situation on the West Bank?

**Mr. Atkins:** That matter was not on the agenda of the Foreign Affairs Council yesterday, or on Monday. However, I have no doubt that it will be discussed at the meeting of the European Council at the beginning of next week.



## Unfair Redundancy (Financial Penalties)

3.52 pm

**Mr. Neil Carmichael** (Glasgow, Kelvingrove): I beg to move,

That leave be given to bring in a Bill to provide for financial penalties for employers who make employees redundant in contravention of the statutory provisions as to consultation with recognised trade unions, and notice periods.

The whole objective of sections 99 to 107 of the Employment Protection Act 1975 was to ensure that employers facing potential redundancy should engage in proper consultations with the trade unions, give adequate notice to both the unions and the Department of Employment, and give adequate time for consultations to take place. The provisions were meant to ensure that no redundancies took place without a compulsory breathing space.

Redundancy at any time and in any form is a tragedy for the workers concerned, and often for the company as a whole. It is a situation that requires delicate handling, adequate consultation, and equity of treatment. It is an area in which it is vital for management and the recognised trade unions to look at all the alternatives, and to agree any system which eventually arises where redundancies are inevitable. The provisions of the Employment Protection Act gave the opportunity for such discussions to take place, but unfortunately, in all too many cases, they have not worked, and there is widespread disappointment among trade unionists with the results.

Employers have managed to evade the provisions of the Act in a number of ways. In effect, they have offered employees wages for the 30-day or 90-day period in lieu of notice—wages that they would have had to pay in any event. They therefore got the individual workers to agree to their own ultimate redundancy, accept money in lieu in a lump sum or similar payment, thus leaving the shop stewards, staff representatives or the full-time officers of the union with no time in which to put forward alternatives or to suggest different ways of handling the redundancies.

In other cases, employers announced overnight the closing down of the plants and paid off the workers immediately. Thus there was no opportunity to consider any alternatives to redundancy or any reduction in numbers, or any different way of dealing with the individuals concerned, or the time scale of redundancies that was envisaged. In the event of overnight closure, when no notice whatsoever is given, trade unions are in no position to insist on their statutory rights to consultation. The plant will have disappeared by the morning, and the workers will have been paid off, having accepted payment in a panic.

My own union, the General and Municipal Workers Union, has had a number of experiences of this kind, which make extremely difficult the trade unions' role in protecting members and taking advantage of legal provisions on consultation.

Many hon. Members will remember a particularly dramatic case, which eventually led to a reaction by the work force. It was the case of Meccano in Liverpool, where 700 workers were told one Friday evening that they had no jobs to return to on the Monday. No payment was made to the workers until after a sit-in had forced the company's hand. A similar example in the early days of

this legislation was the flagrant disregard of legal obligations in the closure of Spillers bakeries. That case involved nearly 3,000 workers.

Employers disregard the Act with virtual impunity because section 101 on protective awards, as a sanction to ensure compliance with the consultative provisions, is totally inadequate. The limits in section 101 make the maximum protective award the equivalent of the wages which the employer would have to pay if he complied with the law. If the employer pays that in lieu of notice, he is unlikely to be fined any more. If he has a protective award as a result of an industrial tribunal, he avoids entirely the consultative procedure and loses no more in terms of wage payments than he would lose had he observed that procedure.

The objective of the Act to put a sanction on employers to engage in consultation and to give notice is therefore evaded. In practice, in any case, awards are only at a minimal level. The Bill that I propose therefore seeks to amend sections 101 and 102 to provide for a minimum £2,000 award for each employee whose potential redundancy is not subject to the consultation process provided for in section 99. There would be additional awards of £10,000 for those employees who wanted to maintain employment but whose reinstatement was not practicable, and £15,000 in cases where the tribunal would award reinstatement as a result of failure to engage in consultation but the employer refused to reinstate the worker. Such minimum awards would be a significant sanction on employers to engage in the consultation process that was willed by Parliament.

It will not have escaped the attention of hon. Members that the penalties provided for employers defying the law in this respect bear a close relationship to those proposed by the Secretary of State for Employment for workers dismissed in closed shops.

I hope that such awards will not need to be made because the sanctions will be insufficient to ensure that all employers, faced with possible redundancies, go through the consultative period required by Parliament. Far too often there has been no period of effective consultation and the period of notice has been far too short. The Employment Protection (Consolidation) Act 1978 was intended to alter that. The objective of that Act was correct, but the means of enforcement have proved to be inadequate.

My Bill aims to deter those employers who fail to observe the will of Parliament to consult in potential redundancy situations by imposing heavier sanctions. Parliament recognised that it must be the joint responsibility of unions and management to take every available step to avoid redundancies where possible, to reduce job loss where possible and to provide acceptable means of dealing with redundancies if they ultimately prove inevitable.

The days when employers could view their responsibilities solely in terms of maximising profits are long gone. There is constraint on that which includes the welfare of the work force and the maintenance of stable industrial relations. Good employers recognise that and will have nothing to fear from the proposals. The Bill does not place any new legal obligations on employers. It merely seeks to ensure that the obligations to consult and to notify in cases of redundancy are met.

That is the modest aim of the Bill. If it is successful, it should allow the present painful situations to be dealt



*Consolidated Budget.*

cc I.G. 2

MS

PRIME MINISTER

Foreign Affairs Council

I attach a copy of the Lord Privy Seal's statement this afternoon. In another inept performance at the Dispatch Box Eric Heffer could do little more than suggest that Members could learn more from the papers than from Mr Atkins on these matters. He muttered about dangers of another shoddy deal and threw in references to "retreat" and "sell out".

In a series of brief but predictable exchanges, the most noteworthy theme was Japan. Peter Emery, David Owen, Kenneth Lewis and David Myles all suggested that the talk had gone on for long enough, and it was time for deadlines and action, both to protect businesses here and to promote the prospects of exporters like the whisky industry.

Other Members who spoke simply took the opportunity to restate their well-known positions in questioning Mr Atkins. But there was some sense of frustration that he chose to give no detail on the Thorn/Tindemans proposals, and this could be raised with you tomorrow.

MA

24 March 1982





TO BE CHECKED  
AGAINST EVERY


FOREIGN AFFAIRS COUNCIL: PARLIAMENTARY STATEMENT BY THE LORD  
PRIVY SEAL, MR HUMPHREY ATKINS MP.

With permission, Mr Speaker, I shall make a statement on the Foreign Affairs Council which took place in Brussels on the 22nd and the 23rd March. My right hon Friend the Secretary of State for Trade and I represented Her Majesty's Government on the 22nd and my right honourable and noble Friend was our representative on the 23rd.

The Council decided that the Community should sign the 6th International Tin Agreement. It and Member States agreed that they should make clear at the time of signature that the Agreement should not be used to facilitate or support the manipulation of the market.

Ministers examined the question of relations with Japan and reached important conclusions. They endorsed the view that these relations remained a matter of serious concern and agreed a comprehensive approach to these problems. This includes continued efforts to persuade Japan to modify its trade and economic policies, a renewed call for tangible assurances of effective moderation of Japanese exports in sensitive sectors; and agreement that the EC should






initiate consultations with Japan about her low level of imports under the dispute settlement procedure of Article XXIII of the GATT. I am arranging for a copy of the text of the Council conclusions to be placed in the Library of the House.

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The negotiations for Spain's accession to the Community continued with a further meeting at Ministerial level. I am glad to report that agreement was reached on almost all the outstanding points in six further areas of the negotiations. We have now had <sup>constructive</sup> ~~good~~ meetings in the last few weeks with the Spanish and with the Portuguese and I very much hope that these will lead to more rapid progress being made in the negotiations with both countries.

During the Council the Greek Minister delivered to the Presidency a memorandum on Greece's future relations with the European Community, and announced Greece's intention to raise the matter at the European Council next week.





The whole of the 23rd of March Council was devoted to a detailed discussion of the 30 May Mandate, and in particular the problem of Britain's budget contribution. The Presidents of the Commission and the Council put forward <sup>on a personal basis</sup> some new ideas on a method of dealing with the budget problem. These were greeted with real interest by Ministers of the Member States who agreed not to make any substantive comments but to discuss them further at a special meeting of Foreign Ministers to be held on Saturday 3 April.



CONFIDENTIAL

PRIME MINISTER

Community Affairs

You will wish to give the Cabinet a brief account of the discussion of Community topics at the 19th March Anglo-German Summit meeting, supplemented as necessary by reports from the other Ministers who were involved in bilateral talks with their German counterparts.

2. The Lord Privy Seal could report on the outcome (apart from the Mandate) of the 22nd-23rd March Foreign Affairs Council. The Council agreed that the Community should join the Sixth International Tin Agreement, making clear - in line with the understanding reached at Chequers - that the Agreement should not be used to facilitate manipulation of the market. The Council adopted satisfactory conclusions on Japan, including a decision to initiate procedures against Japan under Article XXIII of the GATT and a reference to the need for Japanese macro-economic policies to reflect her international responsibilities. Preparations for the March European Council were completed on the basis of the proposals put forward by the Belgian Prime Minister, though the United Kingdom was obliged to resist the suggestion that the Mandate should not figure on the agenda at all. The text of the inter-governmental Agreement setting up the European Foundation was agreed. After discussion in the Council at French request, the question of the distillation of wine alcohol (mentioned in Cabinet last week) was resolved by officials on the basis of new Commission assurances designed to safeguard British producers of industrial alcohol.

3. As to the Mandate, the Foreign and Commonwealth Secretary could outline the main features of the proposal produced by Messrs Thorn and Tindemans, which is to be discussed in detail at a special Council on 3rd April.

4. Next week the European Council meets on 29th-30th March, the Agriculture Council from 31st March to 2nd April, and Foreign Ministers on 3rd April.

RA

Robert Armstrong

24th March 1982

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FM UKREP BRUSSELS 231840Z MAR 82

TO IMMEDIATE FCO

TELNO 1191 OF 23 MARCH

INFO PRIORITY EC POSTS.

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FOREIGN AFFAIRS COUNCIL 22-23 MARCH

30 MAY MANDATE

1. IN SPEAKING TO THE PRESS IMMEDIATELY AFTER THE COUNCIL  
YOU TOOK THE FOLLOWING LINE.

GENERAL

2. USEFUL DISCUSSION OF MANDATE.

THE TWO GAPS

OPPORTUNITY TO CLARIFY THE "TWO GAPS" AND TO



## THE TWO GAPS

3. TOOK THE OPPORTUNITY TO CLARIFY THE "TWO GAPS" AND TO CIRCULATE A DIAGRAM WHICH ILLUSTRATED AND EXPLAINED THE POINTS. THE REAL SCALE OF THE PROBLEM DERIVES FROM THE CUMULATIVE EFFECT OF TWO ELEMENTS. BRITAIN, ONE OF THE LESS PROSPEROUS MEMBER STATES, NOT ONLY GETS DISPROPORTIONATELY SMALL SHARE OF RECEIPTS BUT ALSO PAYS DISPROPORTIONATELY LARGE SHARE OF CONTRIBUTIONS.

## PRESIDENCY PROPOSAL

4. WELCOMED THE MAJOR EFFORT MADE BY THE TWO PRESIDENTS IN PRESENTING THEIR PROPOSAL. WE IN BRITAIN WILL STUDY IT WITH VERY GREAT CARE, WHICH IT FULLY DESERVES. WRONG TO PRE-EMPT THIS BY HASTY COMMENT. THEREFORE OFFER ONLY THE MOST TENTATIVE FIRST REACTIONS.

5. IT IS A CONSTRUCTIVE INITIATIVE WITH A NUMBER OF VERY WELCOME FEATURES. REPRESENTS A STEP FORWARD FROM THE EARLIER GUIDELINES TO THE DISCUSSION OF A METHOD OF ACTUALLY CALCULATING A BUDGETARY CORRECTIVE ARRANGEMENT. FOR TOO LONG WE HAVE BEEN DISCUSSING THINGS IN A VACUUM.

## WELCOME ELEMENTS

6. A. FIVE YEARS. SURE THAT IT WOULD BE RIGHT TO TAKE DIVISIVE ISSUE OUT OF NEGOTIATING FORUM FOR SUBSTANTIAL PERIOD, BUT IT MUST BE A REAL FIVE YEAR SETTLEMENT.

B. RECOGNITION THAT A SINGLE LUMP-SUM APPROACH IS NOT ADEQUATE; THE SOLUTION MUST BE RELATED IN SOME WAY TO THE SCALE OF THE PROBLEM, WHICH WILL CHANGE OVER TIME.

C. RECOGNITION THAT THE GAP BETWEEN BRITAIN'S GDP SHARE AND BRITAIN'S RECEIPTS DOES NOT REFLECT THE WHOLE OF THE PROBLEM.

## PROBLEMS

7. AT FIRST SIGHT THERE ARE REAL DIFFICULTIES.

A. THE PROPOSAL AS IT STANDS DOES NOT CONTAIN ENOUGH PRECISION TO ENSURE THAT WE AVOID A RENEGOTIATION EVERY YEAR. WE NEED A FORMULA WHICH CAN BE APPLIED TO FUTURE YEARS. AND WE NEED SOME ILLUSTRATIVE FIGURES SO THAT WE CAN SEE HOW IT WILL WORK OUT IN PRACTICE. THIS I THINK THE COMMISSION ARE GOING TO PROVIDE US WITH.

B. THE CONTRIBUTIONS GAP IS INCOMPLETELY COVERED BY THE



D. THE CONTRIBUTIONS GAP IS INCOMPLETELY COVERED BY THE FORMULA WHICH RELATES TO VAT. THIS IS A REAL PROBLEM.

C. THERE IS NO PROVISION FOR REVIEW. THIS WILL CLEARLY BE NEEDED.

D. I AM NOT AT ALL HAPPY ABOUT THE DISTINCTION BETWEEN A THREE YEAR PERIOD OF CERTAINTY AND A NEW NEGOTIATION BEFORE THE LAST 2 YEARS. (THAT WOULD BE 1984 - HARDLY A GOOD YEAR TO HAVE IT).

#### CONCLUSION

8. SO THERE IS STILL A LONG WAY TO GO. BUT ALL OF US ARE CONTENT TO USE THIS PROPOSAL AS A BASIS OF FURTHER DISCUSSION, AND WE ARE TO MEET AGAIN IN LUXEMBOURG ON SATURDAY 3 APRIL TO CONSIDER IT FURTHER AND TO AGREE ON THE FIGURES FOR X, Y, AND Z (A REFERENCE TO THE PRESIDENCY TEXT). THERE WAS GENERAL AGREEMENT WITH MY VIEW THAT THESE SHOULD BE FIXED ON 3 APRIL.

9. IT WAS A GOOD BASIS FOR DISCUSSION, BUT I SUSPECT THAT MEETING IN LUXEMBOURG WILL BE HARD WORK.

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TELEGRAM NUMBER 1190 OF 23 MARCH  
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FOREIGN AFFAIRS COUNCIL 22-23 MARCH; 30 MAY MANDATE

1. AT HIS PRESS CONFERENCE AFTER THE COUNCIL, TINDEMANS MADE THE FOLLOWING COMMENTS:  
THE PROPOSAL PUT BY THORN AND HIMSELF HAD BEEN WELL RECEIVED; ALL MEMBER STATES HAD INDICATED REAL INTEREST IN IT AS A VALID BASIS FOR DISCUSSION AT THE POLITICAL LEVEL. THE QUESTION WOULD NOT BE ON THE AGENDA OF THE EUROPEAN COUNCIL, BUT INDIVIDUAL HEADS OF GOVERNMENT COULD OF COURSE SPEAK ABOUT IT. THERE WAS CLOSE COOPERATION BETWEEN THE PRESIDENT OF THE COMMISSION AND HIMSELF ON THE ISSUE.



TINDEMANS EVADED SUPPLEMENTARY QUESTIONS AND DETAILS, INCLUDING DEGRESSIVITY. HE SAID THAT THE PROPOSAL WAS DESIGNED TO AVOID THE BOOBY TRAPS INHERENT IN BOTH THE GUIDELINES APPROACH AND SETS OF FIGURES.

3. SEE MIFT

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FCO - NEWS DEPT PS PS/LPS PS/PUS BRIDGES HANNAY

CAB - HANCOCK ELLIOTT WENTWORTH

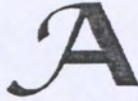
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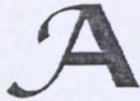
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Prime Minister

To be aware.

ML  $\frac{23}{3}$

Mr. N. Ingram

Mr. Saltzman

Treasury Chambers, Parliament Street, SW1P 3AG

D C R Heyhoe Esq  
Private Secretary to the Lord President of the Council  
Privy Council Office  
Whitehall Place  
LONDON  
SW1

23 March 1982

MS

Dear David,

EC BUDGET REFUNDS: ANNOUNCEMENT OF FURTHER SUPPLEMENTARY MEASURES SUPPORT

During the next few days, we expect the Commission to announce decisions under the supplementary measures regulation granting the first instalment of our budget refunds entitlement for 1981. The decisions provide for Community contributions totalling some £903.6 million to the seven regional investment programmes and the programme of trunk roads investment outside the assisted areas which were granted support for our 1980 Budget refunds. For the first time, the decisions include support for electricity investment at rate of 20%. Of the £903.6 million granted, 90% (ie £813.2 million) is payable immediately. This latter figure represents just over 80% of our estimated gross entitlement for 1981, thus fulfilling the agreement that we should receive at least 80% of our gross entitlement before the end of March.

We propose to issue a press notice giving this information in London and the regions concerned at 4.30pm on the day when the Commission makes its announcement. The Financial Secretary proposes to inform Parliament in a written reply to an arranged PQ on the same day. Unfortunately, the timing of the Commission's announcement is as yet uncertain, though we believe that there is a good chance that it will be made on Thursday this week. I will write again when we have anything more definite.

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

- (i) the refunds are coming through as agreed; the latest decisions mean that we should receive over 80% our estimated gross entitlement for 1981 under the supplementary measures regulation before the end of the UK financial year, as agreed when the regulation was adopted;



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

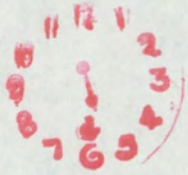
(iii) they do not, however, open the way to increases in domestic public expenditure programmes beyond the levels already planned.

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

*Yours ever,*  
*David*  
D L WILLETTS



2 3 MAR 1982







(2)

~~Prime Minister~~  
To note.

A.J.C. <sup>23.</sup>/<sub>3</sub>

W

FCS/82/54

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

1. In your letter of <sup>behind</sup> 22 March you expressed your anxieties about the possibility that tomorrow's Foreign Affairs Council will reach agreement on guidelines, and that in doing so it will be impossible to get satisfactory amendments to the text on milk. I agree with you that it is not very likely that the guidelines will be agreed. If the discussion does develop in this direction, I would be guided by the line we agreed in January (Coles's letter of 22 January to my Private Secretary): I shall certainly deploy the arguments in my brief for getting improvements in the milk text and I would only agree to the text as it stands in the last resort in order to obtain an acceptable text on degressivity.
2. I do not think that anything that has happened since January should change the conclusions we reached then. In particular it does not seem to me that acceptance of the guideline ("account will have to be taken of small producers, for whom special measures will be provided, financed by the Community budget") would be tantamount to accepting the Commission's proposal for progressivity in the milk levy. It would seem to me to be open to you to continue to oppose the Commission's proposal for a reduction in the coresponsibility levy for small farmers and to argue that what we had in mind in accepting the guideline was some form of direct income scheme.
3. As regards the link between agricultural prices and the budget I see little or no danger that this will be undermined by agreement on the guidelines. If agreement was reached on the guidelines I would make it very clear along the lines of my brief that the principle of parallel implementation remained. I think that our linkage is in any case likely to come more out into the open in coming weeks.

/In sum,





4. In sum, I think we must continue to show ourselves willing to discuss the guidelines constructively. Not to do so would certainly wrong-foot us, particularly with the Germans and would ensure that we were blamed for the breakdown in the negotiations.

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

Handwritten red ink stamp, possibly a date or reference number, partially legible.

Handwritten mark, possibly a signature or initials, resembling a stylized 'C' or '1'.

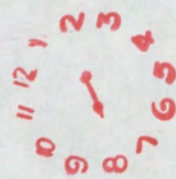
(CARRINGTON)

Foreign and Commonwealth Office  
22 March 1982





2 MAR 1982





CONFIDENTIAL

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



From the Minister

The Rt Hon Lord Carrington PC KCMG MC  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

~~Prime Minister~~

mf

A.F.C. 22/3

A.F.C. 23/3

22 March 1982

*Beer*

FOREIGN AFFAIRS COUNCIL - 23 MARCH: 30 MAY MANDATE

I understand that despite the firm line that the Prime Minister and yourself took with Messrs Tindemans and Thorn on Tuesday, there still remains a possibility that next week's discussion of the 30 May Mandate in the Foreign Affairs Council may turn into a repeat of previous attempts to resolve the points of disagreement on the draft European Council guidelines. This causes me considerable anxiety.

It was agreed before the 25 January meeting that, if to obtain an acceptable text on degressivity it was necessary as a last resort to give up our reservations on the milk text, the balance of advantage was in favour of doing so. Since then however the situation has changed in ways which in my view significantly affect the balance of advantage. In particular substantive negotiations have begun on the CAP price-fixing and the Commission have tabled a proposal to introduce the principle of progressivity into the milk co-responsibility levy.

In my view any agreement at this stage on guidelines would risk wrong-footing us on the whole question of linkage between CAP prices and the budget, as it is clearly the German intention to do. At an earlier stage the guidelines exercise helped establish the principle of this linkage, but illogical though it may seem agreement on guidelines now would make it very much more difficult for me in practice to delay a prices settlement without exposing our direct linking tactics in a way that would clearly be unwelcome at this stage.

/This point .....

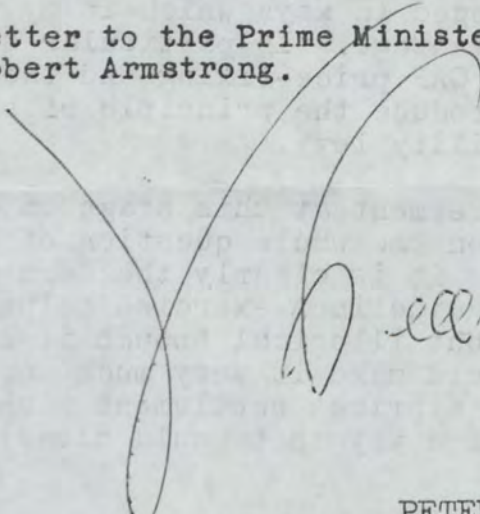


This point will particularly apply if we now agree the milk text as it stands, since milk is one of the strongest cards in my hand in resisting on its merits in the Agriculture Council the sort of package which other Member States and the Commission are likely to put together in the coming weeks. If we have already surrendered our main points of principle on milk, it will become increasingly difficult for me to block the package without directly invoking the link with the budget negotiations.

From the agricultural policy point of view to agree to the milk text now would be a major set-back since it would be tantamount to accepting the Commission's proposal for progressivity in the milk levy. With that text behind me I would be in a very much weaker position to sustain any serious opposition to the Commission's proposal. And it has become even more clear from a recent speech by Mme Cresson to the Agriculture Committee of the European Parliament that the French see the milk proposal as only a bridgehead for a differential price system across the board, which would be disastrous from the point of view of British agriculture.

Both for tactical reasons therefore and for substantial reasons of agricultural policy I hope that you will be able to avoid a revival of the agricultural chapter of the draft European Council conclusions and, more importantly, avoid giving away the milk card at what is clearly still an early stage in the overall negotiations. I recognise that the chances of agreement on budget guidelines are in any case slim, given other Member States' position on degressivity. But I hope that you will at all events find a way of avoiding agreeing to guidelines, particularly the milk guideline in its present clearly unsatisfactory form. This would in my view undermine our agreed tactics of making maximum use of the leverage afforded by the price-fixing.

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



PETER WALKER



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FM ROME 221720Z MAR 82

TO IMMEDIATE FCO  
TELEGRAM NO. 118 OF 22 MAR 82  
AND TO IMMEDIATE UKREP BRUSSELS  
SAVING FOR INFO OTHER EC POSTS

YOUR TELEGRAM NO. 235 TO UKREP BRUSSELS: 30 MAY MANDATE

1. WE HAVE RECEIVED THE FOLLOWING ACCOUNT FROM A MEMBER OF THE PRIME MINISTER'S OFFICE OF THORN'S MEETING WITH SPADOLINI THIS MORNING. THE 30 MAY MANDATE DOMINATED THEIR DISCUSSION.
2. THORN FOUND THE PRESENT SITUATION DISCOURAGING. FACED WITH WHAT AMOUNTED TO ULTIMATUMS FROM BOTH THE FRENCH AND THE BRITISH HE SAW NO ROOM FOR A REAL NEGOTIATION. BUT THE POLITICAL IMPERATIVE FOR A SETTLEMENT WAS AS IMMEDIATE AS EVER. HE BELIEVED THAT THE



HE SAW NO ROOM FOR A REAL NEGOTIATION. BUT THE POLITICAL IMPERATIVE FOR A SETTLEMENT WAS AS IMMEDIATE AS EVER. HE BELIEVED THAT THE ONLY WAY FORWARD LAY IN AGREEMENT ON A FRAMEWORK FOR A SOLUTION AND A TIMETABLE FOR ITS IMPLEMENTATION. BUT HE DESPAIRED OF PROGRESS AT THE FOREIGN AFFAIRS COUNCIL DISCUSSION OF 23 MARCH. IT WAS THEREFORE INEVITABLE THAT THE ISSUE WOULD HAVE TO BE DISCUSSED AT THE EUROPEAN COUNCIL, BUT HE DID NOT BELIEVE THAT THE HEADS OF GOVERNMENT WOULD BE PREPARED TO DISCUSS FIGURES (A SENTIMENT WITH WHICH SPADOLINI CONCURRED).

3. ON SUBSTANCE, HE HAD THE IMPRESSION THAT MITTERRAND WAS MUCH LESS EXTREME THAN HIS MINISTERS. ON DURATION MITTERRAND HAD, HE CLAIMED, ALREADY CONCEDED 4 YEARS, AND MIGHT BE MOVED TO 5. HE HIMSELF BELIEVED THAT MITTERRAND COULD BE RIDDEN OFF EXPLICIT INSISTENCE ON DEGRESSIVITY, THOUGH HE ADDED WITH APPARENT INCONSISTENCY THAT MITTERRAND WOULD WANT SOME REFLECTION OF THE CONCEPT IN WHATEVER FIGURES WERE AGREED. THORN HAD SPOKEN OF THE POSSIBILITY OF AN AGREEMENT FOR 5 YEARS WITH FIGURES FOR 2, PENDING WHAT HE BELIEVED WOULD BE AN INEVITABLE REVIEW OF THE WHOLE OWN RESOURCES SYSTEM ON ENLARGEMENT AND ON THE EXHAUSTION OF CURRENT OWN RESOURCES WHICH HE PREDICTED FOR 1984.

4. THORN TOLD SPADOLINI THAT HE DID NOT BELIEVE THAT SCHMIDT WOULD WANT TO GET INTO AN ARGUMENT EITHER WITH THE PRIME MINISTER ON ONE HAND, OR WITH MITTERRAND ON THE OTHER, AND THAT THEREFORE HE WOULD BE UNWILLING TO ACT AS BROKER. NEVERTHELESS OVERALL HIS CONTACTS WITH OTHER HEADS OF GOVERNMENT LED HIM TO BELIEVE THAT IT MIGHT BE POSSIBLE TO ACHIEVE AN AGREEMENT IN PRINCIPLE, TO BE REACHED AMONG THE HEADS OF GOVERNMENT AFTER BRIEF DISCUSSION AT THE EUROPEAN COUNCIL, BUT TO BE FILLED OUT IN THE CORRIDORS. THORN ALSO ADDED THE THOUGHT THAT MITTERRAND MIGHT BE BROUGHT TO ACCEPT A, FOR HIM, LESS ATTRACTIVE SOLUTION TO THE UK PROBLEM IF THE AGRICULTURAL PRICE NEGOTIATIONS WERE SEPARATED FROM THE MANDATE.

5. FCO PSE PASS SAVING ADDRESSEES.

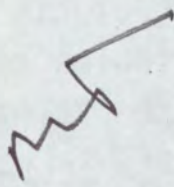
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European Policy

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Mr Harman  
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FM UKREP BRUSSELS 221245Z MAR 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1148 OF 22 MARCH 1982

FOLLOWING FOR NEWS DEPARTMENT AND NUMBER 10 PRESS OFFICE FROM FENN:

EC MANDATE: CAP BUDGET LINK

1. THE FOLLOWING IS THE UNATTRIBUTABLE LINE WHICH I AM TAKING IN RESPONSE TO QUESTIONS ABOUT THE LINK ARISING FROM THE PRIME MINISTER'S CONFERENCE WITH SCHMIDT ON 19 MARCH.

CAP/BUDGET LINK

1. OF COURSE THE TWO PROBLEMS ARE RELATED: BUT THE RELATIONSHIP IS NATURAL AND ORGANIC, NOT ARTIFICIALLY IMPOSED BY ANY MEMBER STATE.
2. AS THE PRIME MINISTER HAS REAFFIRMED, PROGRESS ON ALL THREE MANDATE CHAPTERS NEEDS TO BE ACHIEVED IN PARALLEL. THIS IS AN AGREED COMMUNITY POSITION, NOT JUST A BRITISH ONE (SINCE SEPTEMBER 1981). THE CONCLUSIONS OF CHAPTERS I AND II WILL HAVE A DIRECT IMPACT ON CHAPTER III. THE COMMISSION'S REPORT OF JUNE 1981 RECOGNISED THAT THE IMBALANCE IN THE BUDGET COULD ONLY BE RECTIFIED BY CONTAINING THE COST OF THE CAP AND EXPANDING OTHER POLICIES.



THE COST OF THE CAP AND EXPANDING OTHER POLICIES.

3. NATURAL THEREFORE THAT PROPOSALS UNDER DISCUSSION IN THE AGRICULTURE COUNCIL IN CONNECTION WITH THE 1982 PRICE FIXING SHOULD COVER MUCH OF THE SAME GROUND AS THE PROPOSALS FOR CAP REFORM UNDER CHAPTER II OF THE MANDATE, EG PROPOSALS FOR:

- HELP FOR SMALL MILK FARMERS
- TREATMENT OF MEDITERRANEAN PRODUCTS
- THE REGIME FOR CEREALS (BRINGING COMMUNITY PRICES NEARER TO WORLD PRICES: ARRANGEMENTS FOR CEREAL SUBSTITUTES)
- MODULATION OF GUARANTEES FOR SURPLUS PRODUCTS, IE GUARANTEED THRESHOLDS FOR MILK PRODUCTS AND CEREALS.

NECESSARY TO ENSURE THAT CONCLUSIONS IN THE TWO FORA ARE BROUGHT TOGETHER.

4. ONE OF THE KEY GUIDELINES WILL PROVIDE THAT AGRICULTURAL SPENDING SHOULD RISE LESS RAPIDLY THAN OWN RESOURCES. ALL AGREE ON THE IMPORTANCE OF CONTAINING THE GROWTH OF AGRICULTURAL EXPENDITURE WITHIN REASONABLE BOUNDS.

5. THE PRICES EVENTUALLY AGREED IN THE AGRICULTURE COUNCIL WILL HAVE A DIRECT IMPACT ON THE SCALE OF THE PROBLEM IN CHAPTER III OF THE MANDATE - NOT ONLY THIS YEAR BUT IN THE YEARS TO COME - AND THEREFORE ON THE SCALE OF THE SOLUTION. THE TWO QUESTIONS ARE LOGICALLY RELATED TO EACH OTHER AND NEED THEREFORE TO BE RESOLVED IN THE SAME TIME SCALE.

6. THAT IS WHY THE PRIME MINISTER SAID: QUOTE IF WE DO NOT GET A SATISFACTORY SOLUTION ON THE BUDGET, WE COULD NOT POSSIBLY AGREE TO A SETTLEMENT ON THE CAP. UNQUOTE

FCO ADVANCE TO:-

FCO - NEWS DEPT.

PRESS OFFICE, NO 10 DOWNING STREET

BUTLER

NNNN



QZ 9204

22 MAR 1982

FILING INSTRUCTIONS

FILE No. ....

Bruxelles, le 22 mars 1982.

Note BIO (82) 126 aux Bureaux nationaux  
cc. aux Membres du Groupe du Porte-Parole

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THORN: STATEMENT ON BRITISH BUDGETARY PROBLEM. (van der Pae)  
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The British media and the international press agencies yesterday carried stories saying that President Thorn, in a interview with the German Suedwestfunk, had accused Britain of national egoism and budgetary greed. These stories are based on a press handout distributed by this radio station which constitutes a severe distortion of President Thorn's actual words. The following disclaimer was put out Sunday evening under the responsibility of the President's cabinet :

"Allegations that President Gaston Thorn - speaking in a German radio interview - had accused the United Kingdom of national egoism and greed and said that she was trying to get more money out of the Common Market budget than she paid in are completely untrue. In fact, he never used the words national egoism or greed anywhere in the interview.

President Thorn in fact said that it was entirely comprehensible that Community countries wanted to do something to help the United Kingdom "for well understood reasons of solidarity". He also expressed his concern about the situation that might arise if, in the present economic recession, "everybody says I must get at least as much out of the Community as I pay in to it. Then solidarity is written in very small letters." In order to make the Community attractive we need more rather than less solidarity".

It is essential that the record be set straight as quickly as possible. These invented comments could easily torpedo forthcoming talks between the Member States about a restructuring of Community policies and also the size of Britain's contribution to the Community budget."

A transcript of the answers and questions concerning the British budgetary problem and the full tape are available on request and will be offered to the press at our 12 o'clock meeting of to-day.

Amities,  
Manuel SANTARELLI. Coeur /////  
-----

cc: Mr Hamay, FCO  
Mr Fry, FCO  
→ Mr Elliott



Frage: Aber das Fatale ist doch, dass durch dieses Eingehen auf die britische Forderung sich in der Gemeinschaft immer mehr ein, wollen wir mal sagen, kraemerhafter Geist bemerkbar macht. Viele fragen sich: "wieviel zahle ich rein und was bekomme ich raus?" Und darueber werden dann die politischen Ziele, die Sie auch eingangs angesprochen haben, zum Beispiel dass wir jetzt Frieden haben, (...) ins Hintertreffen oder gar in die Vergessenheit (geraten). Ist das nicht eine ernsthafte Gefahr fuer die Gemeinschaft?

Antwort: Ich kann hier Ihnen nur zustimmen. Das Schreckliche ist nicht, dass man England hilft und dass man England irgend etwas zurueckzahlen will. Das kann man sich ganz wohl vorstellen, dass es Momente gibt in der Politik, wo ein Land besonders schlecht dran ist und wo die anderen, eben aus wohlverstandenen Gemeinschaftsgruenden, aus Solidaritaet, diesem Lande helfen. Wenn aber dem zugrunde liegt, dass man sagt, ich muss so viel rausbekommen wie ich reinbezahle, dann fuerchte ich, kommt, wie im Moment, die Idee auf, besonders im Moment, wo es politisch und wirtschaftlich und deshalb auch haushaltspolitisch sehr schlecht geht, dass jeder sagt: ich muss mindestens soviel rausbekommen, wie ich reinzahle. Jeder moechte mehr haben, und in dem Moment wird dann Solidaritaet ganz klein geschrieben. Nun, um die Gemeinschaft zu etwas attraktivem zu machen, besonders jetzt bei der schwierigen wirtschaftlichen Lage, braucht man ein Mehr an Solidaritaet und nicht weniger Solidaritaet - muss man annehmen, dass es eben Einnahmen der Gemeinschaft gibt, ueber die die Gemeinschaft verfuegt und wo nicht jedes Land fragt, dass dieses Geld ihm einfach ...., sonst koennen Sie genauso gut dieses Geld gleich in der Tasche behalten und dann gibt es ueberhaupt keinen Gemeinschaftshaushalt mehr, dann gibt es keine Gemeinschaftsausgaben mehr, dann gibt es keine Gemeinschaft mehr.



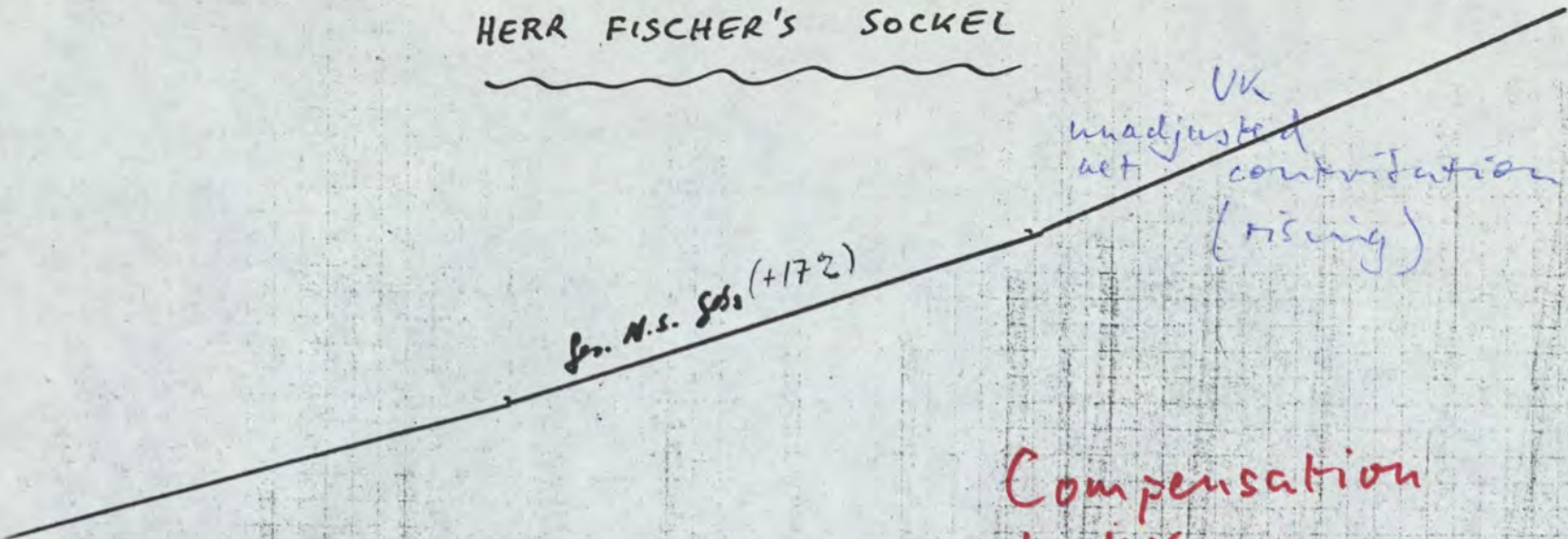
- 1/4 - ... de ... - 2/2/70

Frage: War es eigentlich klug damals, 1980, der britischen Forderung von Margaret Thatcher ("I want my money back") ueberhaupt Gehor zu schenken? Haette man den Briten nicht lieber sagen sollen: "Ihr seid unserem Klub beigetreten; haltet Euch an die Spielregeln oder tretet wieder aus."

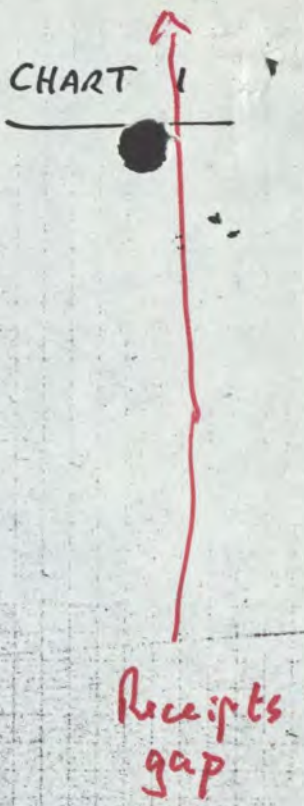
Antwort: So einfach ist es leider nun nicht. Ich muss darauf hinweisen, dass 1972, als ich amtierender Ratspraesident war, im Moment des Beitritts Grossbritanniens, man leider zu Papier gebracht hat, dass, sollte sich eine fuer ein Land - und man dachte an Grossbritannien, denn Grossbritannien hat unter Ted Heath die Frage aufgebracht - , sollte sich eine unannehbare Situation herausstellen, dann wuerden die anderen es als ihre Pflicht empfinden, dies auszubuegeln. Nein, es war nicht 1972, ich glaube sogar 1971, wenn nicht schon 1970, wo zum ersten Mal die Frage aufkam und es (war) Vizepraesident Deniau, das damalige Kommissionsmitglied, der dann den Vorschlag gemacht hat, der von den damaligen sechs Regierungen gutgeheissen wurde. Und auf diesen Beschluss hat sich Frau Thatcher berufen. Leider hat kein Mensch damals klargestellt, was "unannehmbar" sei und auch heute wissen wir noch nicht, was es ist. Es ist eine subjektive Verhandlung. Jedes Land sagt: "Dies ist fuer mich unannehmbar" und das muss einmal ein Ende finden. Man kann Uebergangszeiten lange hinausziehen, aber einmal muss man annehmen, dass Beschluesse, die - besonders wenn sie leider einstimmig gefasst wurden - , wann diese gefasst wurden, dann muessen die fuer jeden annehmbar sein.



HERR FISCHER'S SOCKEL

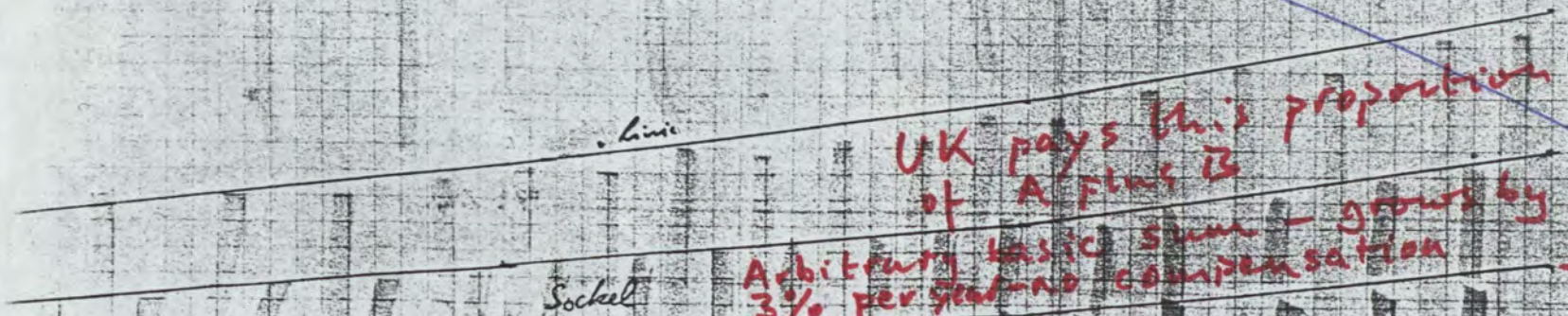


Compensation to UK



(A)

Receipts gap



(B)

(C)

Contribution gap - no compensation



(D)





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233 7256

Qz.02512

22 March 1982

J G Littler Esq CB  
H M Treasury  
Parliament Street  
London SW1

Dear Geoff,

BUDGET GUIDELINES: DISCUSSION WITH DR FISCHER ON 19 MARCH

Following the Foreign Secretary's talk with Herr Genscher at Chequers on 19 March, Tom Bridges and I had a private talk with Fischer. It was agreed that the talk was entirely personal and without commitment and that nothing said should be quoted back in any official discussions.

2. Fischer said that he was trying to find a way round the depressivity problem. He wanted to drop all reference to the word in return for some formula which the other Member States might accept. He showed us the text reported in Bonn telegram No 222 of 15 March but remarked that it was probably much too general to be of any use.

3. He then explained an idea which will surely go down into history as "Herr Fischer's sockel". I understand that "sockel" means a base. Its significance is illustrated in the attached two graphs which Fischer handed over. They are, I think, to be interpreted as follows. The line at the top of the graphs is the evolution of the United Kingdom's unadjusted net contribution. The first graph shows what happens if it rises and the second what happens if it falls. Reading from the bottom of the page the section I have marked D must, I think, be the contributions gap for which Fischer is assuming there would be no compensation at all. A plus B plus C combined therefore equal the receipts gap. Fischer's sockel marked C on the graphs is an arbitrarily determined element or, as he would prefer to term it, "an agreed basic sum" for which we would receive no compensation. It would rise by a fixed percentage which would be the vareage growth rate of our trade with the Community between our accession and 1981. Fischer said that this was 3% a year.

4. The remainder of the receipts gap, namely A plus B on the attached graphs, would be divided by an agreed co-efficient.



5. Fischer's idea is that this scheme should be incorporated into the guidelines by the attached amendment to paragraph 3. In return for our accepting this, the sentence on degressivity would be completely dropped.

6. I am having a meeting later today to discuss what response the Foreign Secretary should make to this idea if it is formally proposed tomorrow. But on rough inspection it seems to me that the idea would be quite acceptable on the following conditions:-

- (i) the scheme included the contributions gap as well as the receipts gap;
- (ii) the initial sockel was small, say 50 million ecu in the first year;
- (iii) the rate of growth of the sockel was indeed low (could the Treasury please check his growth rate to ensure that it is 3% a year?);
- (iv) the co-efficient dividing the rest between the Community and the UK was acceptable.

7. Our informal discussion at Chequers also covered the United Kingdom's need to see the contributions gap included in the formula. Fischer began by saying that we had not a hope - opposition to the financial mechanism was so strong among other Member States. I then suggested that we might redefine the objective indicator so that it spanned the difference between our contributions share and our receipts share instead of the difference between our GNP share and our receipts share. Fischer at first said that this was too transparent and would not be negotiable. But he then said why did we not substitute our VAT share for our contributions share? He understood that it was not much less and it would be a great deal more acceptable as a concept to other Member States.

8. I have already asked Andrew Edwards if he would investigate the financial significance of this idea.

9. Finally, Fischer said that a rumour had reached him that the proposal by the two Presidents to the meeting tomorrow would include the proposal that the UK should pay 20% of the objective indicator gap in the first year and that this percentage should rise by 5% a year so that it would be 35% in the 4th year. (Assuming that the receipts gap is two-thirds of the whole, this means that we would be paying half of our unadjusted net contribution in the 4th year.)

10. I remarked to Fischer that, as he well knew, this could not conceivably lead to a settlement. I wondered, therefore, whether we might seek agreement on the basis of a means of adapting the co-efficient year by year to give an incentive both:-



CONFIDENTIAL

- (i) to the UK to adjust its economy ( or whatever);
- (ii) to the Community to adjust its budget.

Thus, if the refund co-efficient in the first year were X% and if in 1983 our imports share from the Community fell by A% then X% would fall by A%. (Per contra if our imports share rose by A% then X% would rise by A%.) If the share of FEOGA in the Community budget in 1983 rose by B% then X% would rise by B%. (Per contra if the share of FEOGA fell by B% then X% would fall by B%.)

- 11. Fischer said that he was not too sure about that!
- 12. It is possible that any of these ideas might emerge during the discussions tomorrow and we shall need to be ready to give the Foreign Secretary advice at very short notice.
- 13. Copies of this letter go to Bridges, Hannay and de Fonblanque, FCO, Hedley-Miller and Edwards, Treasury, Sir M Butler, UKREP and Beamish, Bonn.

*Yours,*

*David.*

D J S HANCOCK



HERR FISCHER'S SOCKEL

CHART I

Sp. N.S. S<sub>2</sub> (+172)

A

B

blkl C

D

Socket

04. 1nd

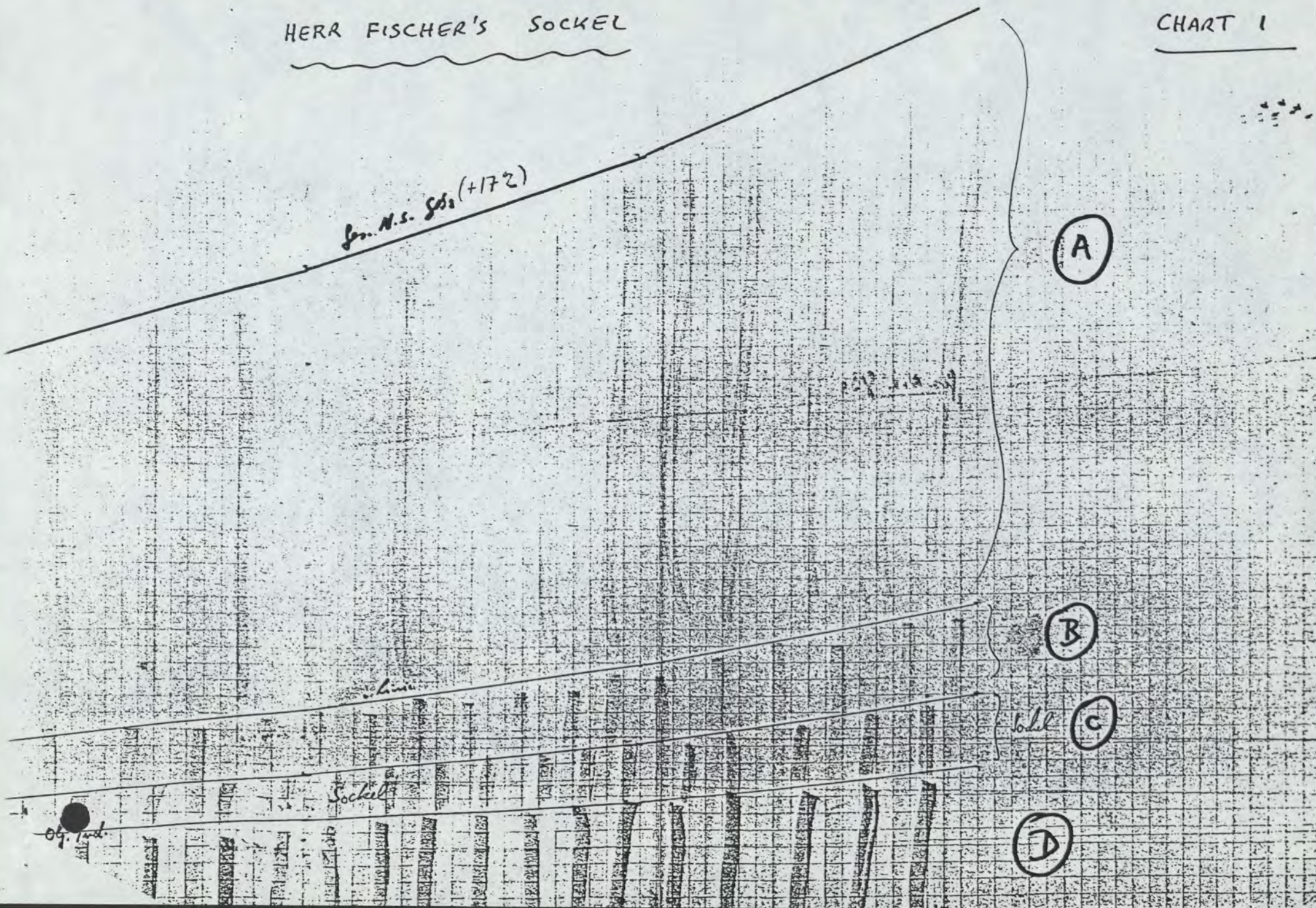
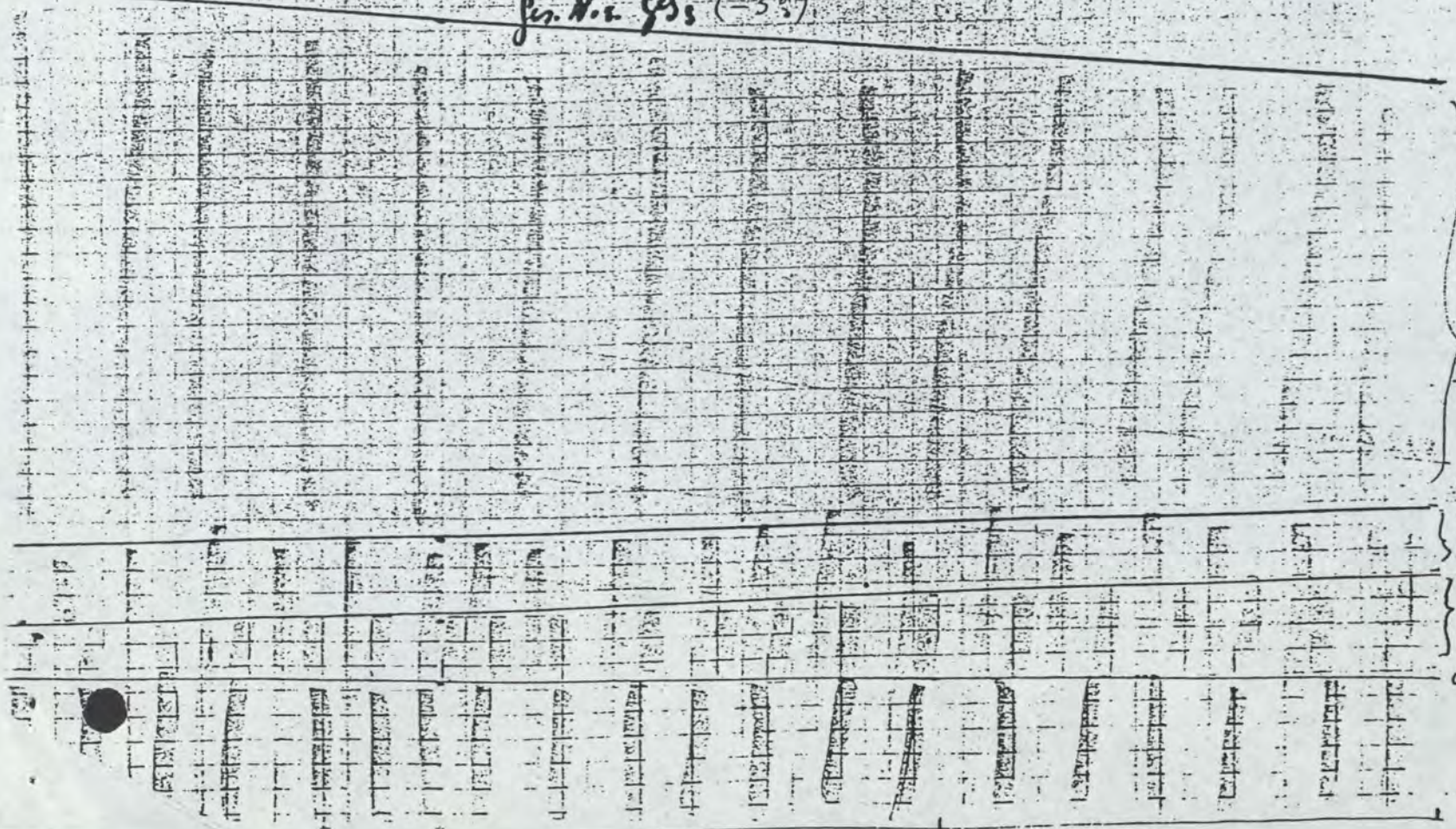




Fig. No. 933 (-53)



A

B

C

Sochel

obj. izdelava

D



Dr. Fischer's idea for a redraft  
of para 3 of budget guideline

The amount of compensation will be determined as follows each year, ex post facto in the light of the real size of the problem, as measured by an objective indicator without excluding if necessary the Financial Mechanism (\*) (1) and on the basis of the level of compensation agreed and the methods of calculation and timing of payments adopted: The United Kingdom will <sup>be</sup> pay an agreed basic sum which rises by a fixed percentage in line with the increasing realization of the United Kingdom's membership of the Community (which is determined by the average growth rate of its trade with the Community between its accession and 1981). The amount in excess of this basic sum will be divided up among the United Kingdom and its partners in accordance with the aforementioned level of compensation. With this method of calculation and a fixed level of compensation there will be no need for fresh negotiation each year.

Handed over at Chequers on 19th March on a  
strictly personal and confidential basis.

D.H.

20/3.



● PART 14 ends:-

Brussels tel 106: 18 March.

PART 15 begins:-

Cab. office to HMT 22. 3. 82



