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cc: Hunt
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10 DOWNING STREET

From the Private Secretary

22 January 1982

30 MAY MANDATE

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

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

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

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

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

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

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

/ It was essential

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

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

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

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

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

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

E. J. DOUGLAS

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Foreign and Commonwealth Office.