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Ref. A07717

MR COLES

The Mandate

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

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

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

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

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ROBERT ARMSTRONG

5th March 1982

SECRET AND PERSONAL

30 MAY MANDATE: BILATERAL TALKS WITH ELYSEE

Draft brief for Sir Robert Armstrong

Objective

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

Coverage

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

(i) The figures for a budget settlement.

(ii) How to finance it.

(iii) Duration and review.

(iv) CAP prices.

(v) Small milk producers.

(vi) Fish.

Figures for budget settlement

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

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

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

mn ecus

Year	Unadjusted Net Contribution	Net Contribution after Adjustment	UK Share
As implied by Commission figures			
1980	1784	609	34%
1981	2140	730	34%
What actually happened (according to latest estimates)			
1980	1527	352	23%
1981	1590	180	11%

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

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

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

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

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

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*See para 13 below.

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

mn ecus

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

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

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

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

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

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

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

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

Finance within the 1% ceiling

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

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

Duration and Review

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

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CAP Prices

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

Small milk producers

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

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

Fish

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

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

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

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

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

Guarantee of good behaviour

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

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

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

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