

SECRET AND PERSONAL

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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.

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- (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?