



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

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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. $\frac{1}{4}$

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- (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.