



CONFIDENTIAL

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

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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

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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.