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cc HMT
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10 DOWNING STREET cc Mr Hancock

From the Private Secretary

7 May 1982

cc. master set

30 May Mandate: Meeting of Foreign Ministers on 8/9 May

The Prime Minister discussed the handling of the meeting which the Foreign Secretary is to attend next weekend at a meeting last night. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Sir Robert Armstrong and Sir Michael Butler were present. The meeting considered the problems raised in Mr. Hancock's minute to me of 5 May.

The Foreign Secretary explained that the informal meeting of Foreign Ministers on 8/9 May would be very difficult. He thought it probable that, after protests and difficulties, the Community would agree to extend the sanctions. But positions on the budget problem were a long way apart and the farm price settlement loomed in the background. It was very awkward that these two problems had come together in this way. At the last meeting in Luxembourg he had been offered refunds of 800 million ecus a year, which was 50% or less of our unadjusted net contribution. Herr Genscher had just told him, at a meeting earlier in the afternoon, that the 800 million ecus exceeded his authority from his cabinet. The Foreign Secretary had argued that this was simply not fair on the United Kingdom. The Community had agreed to two-thirds in 1980 and was now offering less. Herr Genscher had replied that the effect of the 1980 agreement had been to leave Germany as the sole net contributor which presented a major political problem for the German Government. The 30 May agreement had in any case been too generous and if he had been present he would not have agreed to it. The over-payment which the United Kingdom had received would certainly need to be taken into account in the settlement for 1982 and future years.

This conversation with the Foreign Minister of a country which tended to be more sympathetic than others showed that the rest of the Community was digging in against us. The Foreign Secretary thought that he would be in very serious difficulties unless he could indicate that the United Kingdom would move its position downwards if the others moved up from 50%. In view of the Falklands crisis, he did not think that it would be a good idea for the 8/9 May meeting to end in failure.

/ The Chancellor

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The Chancellor of the Exchequer said that he agreed that the position was very difficult. But it would be a major setback for the Government, and for the Community cause in the United Kingdom, if we got no better deal than a 66% refund. The result of such a failure would be with the Government for a long time. If the other countries reneged on sanctions against Argentina, the political problem about Community membership would get acutely worse.

He could, however, accept the proposals for flexibility defined in paragraph 12 of Mr. Hancock's minute. He also saw advantage in offering the gesture on "over-payments" defined in paragraph 15. But he did not think this should be offered too early for fear that the other member states would ask for more. It would probably not be right to offer this concession on 8/9 May. He could not agree to the suggested concession on levies defined in paragraphs 13 and 14 of Mr. Hancock's minute. He thought that that would be a very dangerous concession and far too likely to lead to pressure to disregard customs duties as well.

The Minister of Agriculture said that his view had always been, and remained, that the only way to secure national objectives in the Community was to fight the other member states all the way and be prepared to make oneself very unpopular indeed. In normal circumstances he would have been quite ready to continue to oppose the farm price package through May and into June, despite the escalating pressures on the other governments from the farming interests. But the Government had to consider the effect of such a policy in present circumstances. The economic sanctions against Argentina presented a number of other governments with perfectly genuine domestic problems. It would be exceedingly difficult for these to be overcome if at the same time the United Kingdom was preventing the implementation of a price agreement which the Danes, the Irish and the Italians, for example, desperately needed and needed soon. If the 8/9 May meeting ended in complete failure, and at the next Agriculture Council the other nine reached agreement on a price package, as was probable, the atmosphere would turn very hostile indeed. The British Government would be attacked for ruthlessness and unwillingness to compromise in very direct and personal terms. Whether this was acceptable was a matter for the Prime Minister and the Foreign Secretary to judge; but he urged that, if the 8/9 May meeting failed, a very early date should be set for the resumption of the negotiations on the budget.

Sir Michael Butler suggested that the objective at the 8/9 May meeting should be to establish a negotiating bracket. Ideally we wanted to come out of the meeting with the others offering us 66% refunds and with the United Kingdom still standing on 85%. But this was probably too optimistic and it might prove that the best bracket we could establish was 60%-85% or 63%-82%. It was not unrealistic to expect further progress to be made towards agreement on duration, the review and the risk-sharing formula. If so, the Presidency would be able to say to the press afterwards that the gap between the positions had narrowed and a crisis in the Community would be averted.

/ In discussion

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In discussion of the one-year solution option (paragraphs 19-22 of Mr. Hancock's minute refer) it was agreed that the Government would be in no better position to negotiate a satisfactory multi-year settlement in 1983 than it was in 1982.

Summing up the discussion, the Prime Minister said that the meeting agreed with the guidelines on flexibility in paragraph 12 of Mr. Hancock's minute. The gesture on over-payments in paragraph 15 could also be made at the right time, but not too early. The suggested concession on levies should not be made. The United Kingdom should not accept a one-year solution. If the 8/9 May meeting failed to reach agreement, our aim should be to secure an early date for resumed discussions.

I am sending copies of this letter to John Kerr (H.M. Treasury), Robert Lawson (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

A. J. COLES

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Foreign and Commonwealth Office.

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