



Prime Minister

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Subject to views of Ministerial
colleagues, agree to recommendation
in para. 3 and letter to Thorn
and Tindemans at Annex B?

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MR COLES

cc: Private Secretaries to:

Muel *mt.* A.J.C. 13/5.

The Foreign and Commonwealth Secretary
The Chancellor of the Exchequer
The Minister of Agriculture, Fisheries and Food
Sir Robert Armstrong

30 MAY MANDATE: UK POLICY DURING THE NEXT PHASE

The following papers are attached:-

- (i) An agreed note by Treasury, FCO, MAFF and Cabinet Office officials on the proposal by Monsieur Tindemans and Monsieur Thorn that the 30 May Agreement now be applied to a third year in order to avoid the current crisis in the Community.
- (ii) The Minister of Agriculture's letter to the Foreign Secretary of 12 May about the way in which the United Kingdom should react if either a majority vote is forced through, despite the Luxembourg compromise, or the Commission fills a hiatus in marketing years with the new price proposals.
- (iii) The record of Mr Hancock's talk with Monsieur Attali in Paris on 12 May.

Next Events

2. Decisions are needed on the line to take on the following occasions:-

- (i) The reply to be sent to Monsieur Thorn and Monsieur Tindemans.
- (ii) The Foreign Secretary's meeting with Monsieur Cheysson tomorrow afternoon.
- (iii) The Prime Minister's meeting with Monsieur Mauroy on Saturday.



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- (iv) Sir Robert Armstrong's meeting with the Personal Representatives of the Heads of State and Government of France, Germany, Italy, Belgium and Monsieur Thorn's Chef de Cabinet at St Cloud on Saturday.
- (v) The emergency meeting of Foreign Ministers on the budget which may be called on Sunday. (This is not certain.)
- (vi) The Prime Minister's meeting with President Mitterrand on Monday.

The third year of the 30 May Agreement

3. The attached note by officials makes the following recommendations:-

- (i) at the various relevant meetings in the next few days UK representatives should take the line that the British budget problem will have to be solved sooner or later and it will not necessarily be any easier to solve later than it is now. We should therefore continue to urge the other member states and the Commission to negotiate for a solution lasting 4 or 5 years based on objective criteria.
- (ii) If it becomes clear that a multi-year solution could only be obtained on terms unacceptable to the Government (and given the risk that the farm price package may somehow be forced through despite our veto) then we should be prepared to negotiate a satisfactory application of the 30 May Agreement to the third year as an interim measure before negotiations on the longer-term solution are resumed.
- (iii) To reduce the risk of the type of reaction by the rest of the Community described by the Minister of Agriculture in Cabinet this morning, the Foreign Secretary should send a firm but conciliatory reply to Messieurs Thorn and Tindemans. The recommended draft is attached at Annex B to the note by officials.



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- (iv) In any negotiations for the application of the 30 May Agreement to 1982, the UK objectives should be as follows:-
- (a) The refund for 1982 to be calculated from the Commission estimate of our unadjusted net contribution for that year. (The point of this is that the lowest conceivable Commission estimate is 1500 mecu. Two-thirds of this is well above the 800 mecu figure on which the Germans are now dug in.)
 - (b) A risk sharing formula in the form applied for the year 1980; but we should accept that it should extend downwards as well as upwards.
 - (c) In the last resort if (b) above were unobtainable, we should be prepared to accept the 1981 formula, again extended downwards as well as upwards.
 - (d) We should insist on a formal endorsement by all member states of the deadline suggested in the two Presidents' letter for securing a longer-term agreement - namely before the end of 1982.
 - (e) We should accept no condition that would in any way prejudice UK views on the nature of the longer-term solution. We should not accept any new constraint on our freedom of action in future farm price negotiations.
- (v) Our aim should be to fight off the over-payment issue and to get the other member states to agree to a one year solution on the conditions listed above without any reference to it. We may not succeed in this aim. Ministers may therefore have to re-consider this point if it seems critical to securing an otherwise acceptable deal.



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Questions posed in the Minister of Agriculture's letter

4. The objective in the next few days must be to ensure that the other member states and the Commission are in no doubt of the serious consequences if either:-

(i) A majority vote on the price package is forced through despite the Luxembourg compromise; or

(ii) the Commission attempts to fill a hiatus with the new price proposals.

The message must therefore be that any such action would be completely contrary to the established rules of the Community. It would be a flagrantly hostile and provocative act. It would put the United Kingdom's back up against the wall. The rest of the Community would be making a grave and elementary mistake if they supposed that the British Government would just sit back and put up with it. The consequences would no doubt be very regrettable for the United Kingdom. They would also be disastrous for the Community and severely damage the interests of the other member states.

5. The Foreign Secretary is being advised to send a message in these terms to the President of the Commission and similar messages are being conveyed to member Governments by our Ambassadors.

Contingency Planning

6. A full submission on our contingency plans for withholding our contribution is now in an advanced stage of preparation and will be available for submission to Ministers if necessary during the course of next week.

Procedure

7. I am sending copies of this submission to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture. I should be grateful if they would let



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you know as early as possible tomorrow morning if their Ministers agree to the recommendations above. A meeting has provisionally been arranged for 11 a.m. tomorrow but we hope that it will not be necessary.

D.H.

D J S HANCOCK

13 May 1982

Cabinet Office

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THIRD YEAR OF REFUNDS UNDER THE 30 MAY 1980 AGREEMENT

Note by Officials

1. This note reports the most recent initiative of Messieurs Thorn and Tindemans on the budget, assesses an alternative form of third year refund which might emerge in the next round of negotiations, and considers how the United Kingdom might respond to such a proposal.

The Thorn/Tindemans message

2. On 11 May the Foreign and Commonwealth Secretary received a message from the President of the Council and the President of the Commission. A translation is at Annex A and a draft reply at Annex B. The message asked the United Kingdom to accept a one year solution for 1982 alone, purportedly based on the 30 May agreement and consisting of a refund of 800 mecu. It sought a response in the next few days with the object of reaching a decision at the 24 May Foreign Affairs Council (though there is also talk in Brussels of a special meeting of Foreign Ministers to deal with the budget on Sunday 16 May).

3. Paragraph 7 of the 30 May Agreement (Annex C) provides that if the budget problem is not resolved for 1982 by structural change "the Commission will make proposals along the lines of the 1980/81 solution and the Council will act accordingly". It would therefore be difficult for the UK to refuse to consider a formal proposal by the Commission for a third year of refunds under the Agreement, though we could of course argue that the search for a structural solution should not be abandoned so early.

4. On figures this proposal goes no further than what was on offer at Villers-le-Temple, and is clearly unacceptable. Moreover it does not comply with the detailed provisions for calculating the refunds in the 30 May agreement. Its ulterior purpose may be to formalize the British rejection of the 800 mecu offer for 1982 in order to improve the

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chances of a vote in the 17 May Agriculture Council. The proposal nevertheless contains one element of considerable value to the United Kingdom, namely the idea of a commitment to agree a longer term solution before the end of 1982, which we should seek to hang on to.

5. Ministers may therefore agree that the United Kingdom should not negotiate on the basis of the Thorn/Tindemans letter, but that in replying we should not rule out the possibility of a one-year proposal properly founded on the 30 May Agreement. Annex B is drafted with these considerations in mind. The remainder of this note examines the advantages and disadvantages of agreeing to negotiate a one-year solution and what our aims should be if Ministers decided to do so.

A third Year of Refunds

6. The present state of the budget negotiation is much less promising than seemed likely a month or two ago and an acceptable long term solution might now take several months of crisis to achieve. In these circumstances the suggestion of the two Presidents might be worth considering. A third year of refunds based strictly on the 30 May Agreement could have some advantages:-

- (i) Because of its legal basis in the 30 May Agreement it would have to relate our compensation to our net budget contribution as a whole - a key concept which the others have been trying to suppress in the negotiations on a longer term solution.
- (ii) It would be difficult for the others to argue that the basic rate of compensation should be anything less than 66% of our unadjusted net contribution - an improvement on the 800 mecu lump sum previously on offer.
- (iii) It would bring in the concept of risk sharing, and get away from the lump sum approach.

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(iv) It would secure recognition of a marginal compensation rate of 75% if the forecast of our unadjusted net contribution was too low (see paragraph 4 of Annex C).

7. There would also be clear disadvantages:-

- (i) There would be no way of manipulating the 30 May Agreement to give much more than 66% compensation for our unadjusted net contribution in 1982, and the chances of getting more than 66% over the longer term would be reduced.
- (ii) The leverage of the 1982 price fixing would have been used up. We would have made concessions on small milk producers and Mediterranean agriculture without getting a medium term budget solution in return.
- (iii) There would be no leverage available until the 1983 price fixing and the negotiations could simply drag on. We could face, and would have to resist, pressure to agree now not to use the price fixing lever.
- (iv) The whole argument about our budget contribution would be prolonged and brought closer to the next UK general election.

Possible Financial Consequences of a Third Year Refund

8. If we can get the method of the 30 May Agreement strictly applied, the first step would be for the Commission to produce an estimate of the United Kingdom's unadjusted net contribution in respect of 1982. Current estimates by the Treasury and the Commission give a range extending from 1600 to 2150 mecu. The table below uses three hypothetical figures from the lower end of this range, which the Commission favour, to show the results of this method.

Table 1

1982 Estimate of Unadjusted Net Contribution to be used in operating agreement	Percentage Difference from 1980 forecast	1982 Refund	Refund as Percentage of Unadjusted Net Contribution	UK Adjusted Net Con- tribution
mecu		mecu		mecu
1500	-15.9	988	65.9	512
1600	-10.3	1054	65.9	546
1800	+ 0.9	1186	65.9	614

On this basis, the adjusted net contribution would be well below the 730 mecu to which we agreed for 1981.

9. The 30 May Agreement contains different provisions for 1980 and 1981 for risk sharing if the Commission estimates of our unadjusted net contributions were exceeded. It will be necessary to decide which of these should be applied to 1982 and there is no language in the Agreement to guide the choice. Although others will argue for a continuation of the 1981 arrangement, for which there would be some justification, we would prefer the 1980 method, which gives us rather better protection against a rise in our net contribution. For 1980 the provision was that the UK was to receive a refund of 75% of any excess over the estimate. For 1981 there was to be no refund for the first 20 mecu above the estimate, a 50% refund for the next 100 mecu and a 75% refund beyond that. The practical effect is that, if (as we think likely) our actual net contribution exceeds the Commission estimate, we would receive up to 40 mecu less under the 1981 arrangement than under the 1980 arrangement. Table 2 shows how, in three specific cases, the 1980 arrangement applied to upward risk sharing would provide a refund up to 40 mecu higher than the 1981 arrangement.

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Table 2

1982 Estimated Unadjusted Net Contribution	Possible 1982 Out-turn	Refund after 1980 risk-sharing (%age of out-turn)	Refund after 1981 risk-sharing (%age of out-turn)
mecu	mecu	mecu	mecu
1500	2000	1363 (68.1)	1323 (66.1)
1600	2000	1354 (67.7)	1314 (65.7)
1800	2000	1336 (66.8)	1296 (64.8)

10. These tables suggest that provided we get effective risk sharing the choice of the estimated 1982 figures is not of crucial importance in determining the eventual UK refund.

Alleged over-payment for 1980 and 1981

11. Our partners will clearly be seeking to take account of the alleged over-payment for 1980 and 1981 and that is the basis for the 800 mecu offer. There is nothing in the 30 May Agreement on which this attitude can be based and we should continue to argue against it, making it clear that the third year should be strictly on the lines laid down in the Agreement. But in return for our partners' accepting not to press their claim over the over-payment, we could consider conceding downward risk-sharing so that the problem could not recur. We should resist pressures for a more specific gesture of the kind mentioned by the Foreign Secretary at the last meeting of Foreign Ministers on the grounds that we were only prepared to contemplate that in the context of a longer term agreement.

Approach to risk sharing

12. Against this background our approach to risk sharing might be:-

- (i) To be prepared to agree to downward as well as upward risk sharing, but to present it as a concession and extract the maximum negotiating mileage from it.

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- (ii) To insist that the marginal compensation rate should be 75% as in the 30 May Agreement.
- (iii) To argue for the 1980 arrangement to be applied on the grounds that it is simpler, less arbitrary, and would be in the interests of the other member states if the Commission's estimate of our unadjusted net contribution proved to be too high.
- (iv) But, if necessary, to be ready to accept the 1981 risk sharing arrangements as a fallback.

Subsequent negotiations on arrangements after 1982

13. The Thorn/Tindemans proposal contains a satisfactory formula setting a deadline for the conclusion of longer term arrangements, but we should need to get clear agreement on this by our partners. 31 December 1982 would be an ideal deadline because it would help us to resist any pressure to agree that we would not hold up the 1983 price fixing. We could argue that such an undertaking was unnecessary because the Mandate decisions should be taken well before the price-fixing decisions became due.

Recommendations

14. Officials are agreed on the following recommendations:-
- (i) at the various relevant meetings in the next few days UK representatives should take the line that the British budget problem will have to be solved sooner or later and it will not necessarily be any easier to solve later than it is now. We should therefore continue to urge the other member states and the Commission to negotiate for a solution lasting 4 or 5 years based on objective criteria.

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- (ii) If it becomes clear that a multi-year solution could only be obtained on terms unacceptable to the Government (and given the risk that the farm price package may somehow be forced through despite our veto) then we should be prepared to negotiate a satisfactory application of the 30 May Agreement to the third year as an interim measure before negotiations on the longer-term solution are resumed.
- (iii) To reduce the risk of the type of reaction by the rest of the Community described by the Minister of Agriculture in Cabinet this morning, the Foreign Secretary should send a firm but conciliatory reply to Messieurs Thorn and Tindemans. The recommended draft is attached at Annex B.
- (iv) In any negotiations for the application of the 30 May Agreement to 1982, the UK objectives should be as follows:-
 - (a) The refund for 1982 to be calculated from the Commission estimate of our unadjusted net contribution for that year. (The point of this is that the lowest conceivable Commission estimate is 1500 mecu. Two-thirds of this is well above the 800 mecu figure on which the Germans are now dug in.)
 - (b) A risk sharing formula in the form applied for the year 1980; but we should accept that it should extend downwards as well as upwards.
 - (c) In the last resort if (b) above were unobtainable, we should be prepared to accept the 1981 formula, again extended downwards as well as upwards.

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- (d) We should insist on a formal endorsement by all member states of the deadline suggested in the two Presidents' letter for securing a longer-term agreement - namely before the end of 1982.
- (e) We should accept no condition that would in any way prejudice UK views on the nature of the longer-term solution. We should not accept any new constraint on our freedom of action in future farm price negotiations.
- (v) Our aim should be to fight off the over-payment issue and to get the other member states to agree to a one year solution on the conditions listed above without any reference to it. We may not succeed in these aims. Ministers may therefore have to re-consider this point if it seems critical to securing an otherwise acceptable deal.

Cabinet Office

13 May 1982

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TRANSLATION OF LETTER TO THE FOREIGN AND COMMONWEALTH SECRETARY
FROM MM THORN AND TINDEMANS

Dear Colleague

In the course of our work at Villers-le-Temple on matters regarding the budget and in the face of the difficulty in reaching an overall agreement, we proposed the consideration of a more limited formula which concerns 1982 alone. Moreover, express provision for such a possibility was made in the Agreement of 30 May 1980.

We should like to remind you of that proposal and to clarify it. Indeed, we consider it of the utmost importance during the difficult period which the Community is experiencing, that there should be no slackening of our efforts to find a solution to the problems connected with the British contribution, particularly since all our colleagues have stated, unequivocally, their desire to reach a solution acceptable to all.

The proposal we made at Villers-le-Temple, which we now confirm, is that compensation for the United Kingdom for 1982 should be decided immediately and that in the light of our discussions on the measures adopted for 1980 and 1981, the sum should be fixed at 800 million ECUs.

Furthermore, we undertake to continue with our efforts to reach before the end of 1982 a longer-term settlement which will take into account all available factors.

This formula/

This formula provides the United Kingdom with a clear undertaking for the present financial year without prejudicing the decisions to be taken regarding subsequent years. Although it was not discussed in detail at Villers-le-Temple, we have the impression that it was received favourably by our colleagues.

We would like you to give fresh consideration to this proposal taking into account everything we discussed together concerning both the implementation of the agreement of 30 May and our willingness to conclude an agreement covering several years. We very much hope that, after due consideration, you will be able to give your consent.

Public opinion would find it inconceivable for the Community to remain immersed in a serious internal crisis at a time when it is more than ever necessary for it to continue to display the unity of which it has given such splendid proof over the past few weeks. Therefore, we request you to give us your reply at the earliest possible opportunity in the next few days so that we can get a decision on 24 May from the Council which could equally decide on the timetable for finalising the longer-term settlement.

Yours etc

G THORN

L TINDEMANS

P.S. It goes without saying that we are at your disposal should you wish to contact us.

Draft reply to Messrs Thorn and Tindemans

Thank you for the message you and Gaston Thorn sent me on 11 May about the next stage of the Mandate negotiations. I am very conscious of the amount of time and effort you are both devoting to this intractable subject and grateful to you for it. I entirely agree with you that we must not relax our efforts to settle the British budget and related problems.

I have considered carefully the arguments you advance in favour of a solution for 1982 along the lines of 1980/81, followed by a pause in these negotiations and their resumption later in the year. I certainly agree that the way things are going at the moment is not satisfactory. I was particularly disappointed, after the failure to negotiate on the basis of your non-paper in Luxembourg, at the way the discussion went at Villers-le-Temple. As I told you and my other Community colleagues I went to that meeting ready to negotiate and I remain ready to negotiate. But I was faced there with a ~~take-it-or-leave-it~~ position from colleagues which in no respect differed from what they had said when we last met in the Council on 27 April. No compromise proposal came forward from the Presidency or the Commission. No Community negotiation can be successfully brought to a conclusion on that basis; and this negotiation is no exception.

But would a pause be likely to help? Is there any reason to believe that the negotiations would be easier to bring to a successful conclusion later in the year? Is it in the interests of any of us

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individually, and of the Community as a whole, that this divisive negotiation should be yet further prolonged? These are hard questions to answer in the affirmative. If there is to be such a pause, there would certainly need to be a firm and precise commitment by all of us of the sort you suggest to concluding the negotiations at an early date, and certainly not later than the end of the year. We had a commitment to decide on the 230 May Mandate at the end of last year. The considered view of my government is however that the right course is to continue the negotiations now for a longer-term solution and to bring them to an early conclusion.

You asked me to consider the possibility of coming to an early agreement on a third year of refunds in respect of 1982 as is provided for in the final sentence of paragraph 7 of the decision of 30 May 1980. For the reasons given above, I am reluctant to come to the conclusion that we have reached a situation where there is no possibility of reaching a broader structural solution in the near future. Moreover, I am not yet convinced that it would be easier to negotiate a solution along the lines of 1980/81 than to settle the problem for the next few years. But I could naturally not refuse to consider a formal proposal from the Commission based on the precise and detailed provisions of the 1980 decision, no more and no less. No such proposal has been made and the lump sum approach you mention cannot be reconciled with the provisions in the 1980 agreement.

I understand that there was a strong feeling in the Agriculture Council yesterday, that there should be another attempt to reach agreement
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on the budget problem before next Monday. I can assure you that I attach the same urgency to this negotiation as you do, and I am at your disposal whenever you wish to call a meeting of the Council.