

Prime Minister



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Content with recommendations in paragraph 10, subject to views of other Ministers concerned?

Qz.02578

To be discussed at

A.C. 19/5

MR COLES

ad on 20/5 AM 20/5 h.a.

I think we need a

cc: Private Secretaries to:-

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

more robust response than this.

COMMUNITY BUDGET PROBLEM

enough now

One been on the budget is not no

Officials have been giving urgent consideration to the way the Government might respond to the crisis created by the decision to override our veto on farm prices today. In the immediate future we feel that the best course is to try to get a satisfactory agreement for 1982 at next week's Foreign Affairs Council; but that everything else should be played long and the Community kept guessing about our ultimate intentions. In particular, we need to know more of other member states' intentions before we can assess the potential future value of the Luxembourg compromise and what our attitude to it should now be.

2. Despite the uncertainty over the future value of the Luxembourg compromise, a budget agreement for 1982 next week would at least allow the Government to say that it had achieved a budget settlement in parallel with the price fixing although not on the same day. Averaged over the 3 years 1980-1982, the figures are not at all bad, provided that we avoid liability to future demands for re-paying the "over-payments". Even if we only got 800 million ecus for 1982, the refunds work out at 75% over 3 years (using the Commission's estimate of 1530 million ecus for 1982). 75% is a lot better than what we thought we had got in 1980.

NO - one year only.

3. However, it is possible that, having broken the link, the others will say there is no hurry about a decision for 1982 and dig in. We have no hold over them now unless we withhold and that would be to escalate the crisis prematurely for very

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little money. Withholding is best kept in reserve until after the Falklands crisis is over and we are negotiating a longer-term agreement.

4. Our present negotiating authority is set out in Annex A. It seems doubtful whether, in the new circumstances, we shall get a deal next week on this basis.

5. Clearly we must attach prime importance to getting rid of the two most objectionable features of the Commission's draft (Annex B):-

(i) The description of 730 million ecus as the minimum net contribution in 1982 and its replacement by downward risk-sharing;

(ii) The prejudicial words at the end of the text "in particular of the result of the application of this arrangement with respect to forecasts that were made initially" because they sound too clearly like a further claim on the over-payments.

6. Flexibility on the following matters might help to secure these goals.

Risk-sharing

7. Ministers have already agreed that we should, if necessary, accept the 1981 formula which is less satisfactory than the simple 1980 formula but only to a maximum effect of 40 million ecus. The new formula is less satisfactory still to a maximum extent of 75 million ecus. But at least it preserves the 75% of the marginal rate of compensation and is a great deal better than no risk-sharing at all. 75% will be a valuable precedent for the negotiations on a longer-term solution.

Figures

8. Herr Schmidt and President Mitterrand have apparently agreed that a 1000 million ecus (ie 66% of 1530) is too much. After this morning's events they have no incentive to change their minds.

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But the French have indicated that they could accept 900 million ecus and Ministers may consider that we should, if necessary, be ready to settle for that in order to clinch a 1982 settlement quickly.

9. Alternatively, if the over-payment is the sore point, we might make the gesture that Ministers approved in the context of the multi-year settlement. This would mean waiving our right to 140 million ecus due in respect of 1981 but not yet approved by the ad hoc committee.

Recommendations

10. Ministers are asked to agree that:-

- (i) We should now concentrate on trying to secure agreement on our third year of refunds under the 30 May settlement at next week's Foreign Affairs Council.
- (ii) Decisions on how to respond to the infringement of the Luxembourg compromise should be deferred until we have a better appreciation of where others now stand on this issue.
- (iii) We have authority to settle for the Commission's new risk-sharing formula (in Annex B) as a last resort.
- (iv) On figures either we have discretion, if necessary, to agree to 900 million ecus as the basic refund for 1982 in place of the 800 million ecus in Annex B; or we stick to our figure of just over 1000 million ecus but offer the gesture on over-payments agreed by Ministers on 6 May.

D.H.

D J S HANCOCK

18 May 1982

UK OBJECTIVES FOR APPLICATION OF THE 30 MAY AGREEMENT TO 1982

- (i) The refund for 1982 should be calculated on the basis of the Commission estimate for our unadjusted net contribution for that year. This is now said to be 1530 million ecus. The 30 May formula gives a refund of 1008 million ecus for that figure.
- (ii) 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.
- (iii) In the last resort if (ii) above were unobtainable, we should be prepared to accept the 1981 formula, again extended downwards as well as upwards.
- (iv) 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.
- (v) 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.
- (vi) 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 reconsider this point if it seemed critical to securing an otherwise acceptable deal.

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DESKBY 170700Z

FM LUXEMBOURG 162130Z MAY 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 124 OF 17 MAY

INFO UKREP BRUSSELS AND OTHER EC POSTS, STRASBOURG.

FROM UKREP BRUSSELS.

PROPOSAL FOR 1982.

1. THE COMPENSATION TO THE UNITED KINGDOM FOR 1982 IS FIXED AT 800 MILLION ECU, ON THE BASIS OF A NET CONTRIBUTION ESTIMATED AT 1.530 MILLION ECU. THE NET CONTRIBUTION OF THE UK CANNOT, AFTER COMPENSATION, BE LESS THAN 730 MILLION ECU.

IF THE NET CONTRIBUTION FOR 1982 PROVES TO BE MORE THAN 1.530 MILLION ECU, THE ADDITIONAL SUM WILL BE DIVIDED IN THE

FOLLOWING WAY:

- INCREASE FROM 1.530 TO 1.580 MILLION, ENTIRELY AT THE EXPENSE OF THE UNITED KINGDOM;
 - INCREASE FROM 1.580 TO 1.730 MILLION : 50 PER CENT AT THE EXPENSE OF THE UNITED KINGDOM AND 50 PER CENT AT THE EXPENSE OF THE OTHER NINE MEMBER STATES;
 - BEYOND 1.730, 25 PER CENT AT THE EXPENSE OF THE UNITED KINGDOM AND 75 PER CENT AT THE EXPENSE OF THE OTHER MEMBER STATES.
2. THE COMMISSION UNDERTAKES TO CONTINUE ITS EFFORTS TO ARRIVE BEFORE THE END OF 1982 AT A LONGER-TERM ARRANGEMENT. THIS ARRANGEMENT WILL TAKE ACCOUNT OF THE RELEVANT ELEMENTS RESULTING FROM THE EXPERIENCE OBTAINED OVER THREE YEARS FROM THE FUNCTIONING OF THE MAY 30 1980 MECHANISM AND, IN PARTICULAR, OF THE RESULT OF THE APPLICATION OF THIS ARRANGEMENT WITH RESPECT TO FORECASTS THAT WERE MADE INITIALLY.

THOMAS

FCO ADVANCE TO:-
 FCO DE FONBLANQUE
 CAB HANCOCK
 MAFF ANDREWS
 TSY EDWARDS

[ADVANCED AS REQUESTED]

LIMITED
 ECD (I)
 ERD
 WED
 ESID
 PS/MR HURD

PS/PUS
 LORD BRIDGES
 MR HANNAY
 MR EVANS
 MR HAYES

COPIES TO
 TREASURY (MISS WRIGHT RM18/G)
 MR ELLIOTT)
 MR RHODES) CABINET OFFICE
 MR HANCOCK ->
 ECD ODA
 MR ANDREWS MAFF

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GR 400

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FRAME AGRICULTURAL
FRAME ECONOMIC
FM UKREP BRUSSELS 181257Z MAY 82
TO FLASH FCO
TELEGRAM NUMBER 1982 OF 18 MAY 1982
INFO ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN
PARIS BONN ATHENS

COUNCIL OF MINISTERS (AGRICULTURE) 17/18 MAY
LUXEMBOURG COMPROMISE

1. DESPITE REPEATED INSISTENCE BY MR WALKER THAT NEGOTIATIONS IN THE AGRICULTURE COUNCIL COULD AND SHOULD BE CONTINUED UNTIL AGREEMENT WAS REACHED ON THE AGRICULTURAL PRICES PACKAGE, AND HIS NO LESS FREQUENTLY REPEATED DEMANDS THAT THE FOREIGN AFFAIRS COUNCIL SHOULD MEET TO CONSIDER THE IMPLICATIONS OF OVER-TURNING THE LUXEMBOURG COMPROMISE, THE PRESIDENCY, WITH THE SUPPORT AND INDEED ENCOURAGEMENT OF THE COMMISSION, HAVE BEGUN THE PROCESS OF VOTING THROUGH THE LARGE NUMBER OF REGULATIONS WHICH TOGETHER CONSTITUTE THE PRICE PACKAGE. DENMARK AND GREECE, WITH US, ARE REFUSING TO PARTICIPATE IN THE VOTES. ALL OTHERS ARE VOTING IN FAVOUR OF EACH REGULATION. THE IMPLEMENTATION DATE FOR THE PACKAGE IS 20 MAY.
2. THE BEHAVIOUR OF THE CHAIRMAN AND THE COMMISSION (THORN AND DAVIGNON ARE PRESENT AS WELL AS DALSAGER) HAS BEEN REPREHENSIBLE. MR WALKER'S DEMANDS FOR A TOUR DE TABLE TO SHOW UP WHICH COUNTRIES WERE PREPARED TO SEE THE LUXEMBOURG COMPROMISE OVERTURNED WAS, FOR A LONG TIME, RESISTED. FRANCE AND GERMANY EVADED THE POINT. MR WALKER MADE IT CLEAR THAT, BY PUTTING TEXTS TO A VOTE, THE COUNCIL WAS ABANDONING THE LUXEMBOURG COMPROMISE. HIS DEMAND FOR A FOREIGN AFFAIRS COUNCIL MEETING WAS BRUSHED ASIDE, AND THE DETAILED AGRICULTURAL QUESTIONS WHICH MR WALKER AND MR BUCHANAN SMITH TRIED TO PUT TO THE COMMISSION WHEN THE RELEVANT REGULATIONS ON WHICH WE HAD RESERVES CAME BEFORE THE COUNCIL WERE CURSORILY DISMISSED WITH NO ATTEMPT EVEN AT A COURTEOUS EVASION.

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3. THE COUNCIL IS EXPECTED TO END ITS RUBBER STAMPING OF THE REGULATIONS BY MID-AFTERNOON. IN BRIEFING THE PRESS AT LUNCH-TIME MR WALKER ANSWERED QUESTIONS ABOUT THE ACTION THE UK WOULD NOW TAKE BY SAYING THAT THE OVER-TURNING OF AN INTEGRAL AND VITAL FEATURE OF THE COMMUNITY'S PROCEDURES, WHICH WAS MANIFESTLY OF KEY IMPORTANCE TO THREE OUT OF FOUR OF THE NEW MEMBER STATES, CLEARLY RAISED VERY IMPORTANT QUESTIONS. MINISTERS WOULD NEED TO CONSIDER THE IMPLICATIONS URGENTLY.

FCO ADVANCE TO:

FCO - PS/SOFS; SPRECKLEY; WITNEY

CAB - ARMSTRONG

NO.10 - COLES

MAFF - PS/MIN; PS/MINOF(S); PS HAYES; HADDON; GURD; REDFERN

DAFS - CRAMOND

DANI - JACK

WOAD(I) - BEVAN

BUTLER

[ADVANCED AS REQUESTED]

FRAME ECONOMIC
FRAME AGRICULTURE
ECD(I)

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