

SUBJECT

RECORD OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND
THE FEDERAL GERMAN CHANCELLOR AT 3.15 P.M. ON WEDNESDAY 24 MAY 1982

The Prime Minister said that she was grateful for the decision just taken by the ten Foreign Ministers that sanctions against Argentina would be renewed on the previous basis but without time limit. This was of considerable political importance. A contrary decision would have given Argentina great hope. Chancellor Schmidt said that it had not been easy to achieve this result.

The Prime Minister said that the Foreign and Commonwealth Secretary had just reported to her from Brussels about the Mandate discussion. The views expressed there by Herr Genscher and M. Cheysson seemed to represent a step backwards from the position of a week ago when all appeared to be near agreement on a risk sharing formula. Mr. Pym now had authority to settle for a lower refund for the United Kingdom, provided a risk sharing formula similar to that for 1980 or for 1981, or a compromise between the two, was also agreed. It was important that there should be an agreement today on a one-year settlement. There was to be a debate on European issues in Parliament on Wednesday. There was already deep anxiety about the future of the Luxembourg compromise, anxiety which the Prime Minister herself shared. It would be most helpful in dealing with public opinion if we could point to progress on the budget issue.

Chancellor Schmidt said that, on behalf of the German Government and people, he wished to express sympathy with regard to the lives lost and the other casualties in the South Atlantic. He and President Mitterrand had made a joint statement of solidarity earlier and had maintained their attitude.

With regard to the Luxembourg compromise, it should be understood that France and Germany wished to maintain the existing formula. They did not consider that we had used it legitimately in the Agricultural Council. It would be perfectly proper for the United Kingdom to invoke the Luxembourg compromise in respect

of its financial problem but our action in coupling the financial issue with that of agricultural prices was not justifiable. The British press were interpreting the issue wrongly.

As regards the UK's financial contribution, either a one-year solution, incorporating a risk sharing formula and an agreement on overpayment, should be adopted now, or a longer-term arrangement should be agreed later which would take account of the overpayments to the United Kingdom in 1980 and 1981, together with the possible overpayment in 1982.

The Prime Minister said that she did not wish to enter into a detailed argument now about the Luxembourg compromise. Feelings here ran very deep. We were sure that our use of the Luxembourg formula was legitimate because the budget issue was critically affected by the expenditure resulting from the agricultural prices settlement. Furthermore, it had been agreed at Lancaster House that the three chapters of the Mandate should be settled in parallel. (Chancellor Schmidt interjected that that was not his understanding.) Later, we had agreed to meet President Mitterrand's requirements in respect of small farmers. She had received no forewarning of what would happen in the Agricultural Council - a letter signed by the Chancellor on 13 May had not reached us until 21 May. Chancellor Schmidt said that this was most regrettable - he would look into the matter.

The Prime Minister said that, with regard to the budget issue, we were not the only country which had benefited from the pattern of payments last year. France had been expecting to pay about 450 ecu's - in fact it had received about 597 ecu's. If one country's overpayment was to be included in the current settlement, overpayments to all countries should be included. There was a strong feeling in the United Kingdom that at a time when we were having difficulties in one part of the world, and were fighting for principles which were of as much interest to the rest of Europe as to us, we had been badly let down by our European partners. We now had to be very careful with

public opinion. Hence, the importance of the current budget discussions. The Foreign and Commonwealth Secretary had authority to accept less than 66 per cent but Herr Genscher and M. Cheysson appeared to be going back on the risk sharing formula which had previously been discussed. She hoped the Chancellor would ring Herr Genscher to urge that he now accept such a formula.

Chancellor Schmidt said that he did not feel that Germany was guilty of any breach of faith. His impression was that President Mitterrand and the Prime Minister had discussed the situation frankly. Mitterrand, like everyone else, had a strong interest in the maintenance of the Luxembourg compromise. With regard to the budget, Genscher had some freedom to act - he could move a little on figures. But Germany's financial capacity was not unlimited. So any risk sharing formula should cover 1980 and 1981 as well as 1982 and should cover all countries. It must be understood that he was facing very substantial budgetary difficulties in both Cabinet and Parliament.

The Prime Minister said that we understood Germany's problem. That was why long-term restructuring was necessary. In the absence of a long-term arrangement, we needed a reasonable settlement for one year today. Unless that was achieved, the debate in Parliament on Wednesday could take an unfortunate turn. Mr. Roy Jenkins had said recently that if the Luxembourg compromise had been abandoned in one case then it no longer existed. It was now necessary to resolve the problem that had been created and the current discussion of the Genscher /Colombo proposals might provide the best context in which to do this.

Chancellor Schmidt said that the difficulty over the United Kingdom's finances arose again and again in the Community, first at the time of the original negotiation over British entry, then during renegotiation, then in May 1980. This was in effect the third renegotiation. People now saw it as a problem which

/always

CONFIDENTIAL

-4-

always reappeared. Germany did not like the CAP and could not keep on paying increasing sums towards it. The Prime Minister commented that every argument the Chancellor used pointed to the desirability of long-term restructuring. In the absence of a long-term solution, Germany was the heaviest contributor. It was the countries who were large beneficiaries who obstructed restructuring. We did not expect Germany to pay disproportionate sums. We wanted an equitable solution.

Chancellor Schmidt asked how the Prime Minister viewed the proposal made by the Commission on 16 May. The Prime Minister said that this was not too far from being acceptable. We could go along with the risk sharing formula suggested by the Commission.

Chancellor Schmidt said that he would try to telephone Herr Genscher. But Germany would not stick its neck out in one direction or another. The Prime Minister said that if Genscher could accept a risk sharing formula, then we could accept a lesser figure for the UK refund. Chancellor Schmidt said that he could make no promises. To begin with, he would have to talk to his Finance Minister.

A.J.C.

24 May 1982