

1530 - 1550

00 UKREP BRUSSELS

850

ADVANCE COPY

GRS 1000

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150 - 502
- 752

DBY 260830Z

IMMEDIATE

Ad/ECDC (1) [LTD]

PS (2)

PS/PWS Huns

PS/Rus

SIR J GULLARD

MR EVANS

MR HANWAY

MR STAPLETON, CABINET
OFFICE

1730

CONFIDENTIAL

DESKBY 260830Z

FM LUXEMBOURG 260005Z OCT

TO IMMEDIATE FCO

TELEGRAM NUMBER 340 OF 26 OCTOBER.

INFO IMMEDIATE UKREP BRUSSELS

FOLLOWING PERSONAL FROM THE SECRETARY OF STATE TO THE
CHANCELLOR OF THE EXCHEQUER

FOREIGN AFFAIRS COUNCIL: 25 OCTOBER 1982

UK BUDGET REFUNDS 1982.

PS/CHANCELLOR
MR LOUSENS } TSY
MR HEDLEY-MILLAR }

1. THE COUNCIL IS MEETING AT 10.30 LONDON TIME TOMORROW
MORNING TO CONSIDER A PRESIDENCY COMPROMISE WITH THE
FOLLOWING ELEMENTS:-

RC.

X12

(A) THE UK WILL RECEIVE 1092 MECU GROSS BEFORE THE END
OF DECEMBER 1982.

(B) THE COMMISSION WILL MAKE THIS PAYMENT WITHOUT RUNNING
DOWN THE AVERAGE BALANCE IN THEIR UK ACCOUNT - IE THE WHOLE
1092 MECU WILL BE EXTRA MONEY.

(C) THE RISK-SHARING PAYMENTS WILL BE MADE IN 1983 INSTEAD
OF 1984.

(D) THE COMMISSION ARE CONFIDENT THAT THE UK CONTRIBUTION
TO THE GERMAN REFUND WILL BE ELIGIBLE FOR A 75 PERCENT REFUND
UNDER THE RISK-SHARING AGREEMENT. THE MISSING 25 PERCENT WILL
BE THE VALUE TO THE UK OF GETTING A BILLION ECU THREE TO SIX
MONTHS EARLIER THAN WAS AGREED ON 25 MAY.

2. I UNDERSTAND THAT THE PROPOSAL WAS EXPLAINED TO YOU THIS
AFTERNOON AND THAT YOU THROUGH THAT WE SHOULD REJECT IT.

I CERTAINLY AGREE THAT IT WOULD NOT BE AT ALL
EASY TO EXPLAIN TO PARLIAMENT WHY THE 850 MECUS
NET AGREED ON 25 MAY HAS TO BE SPLIT UP INTO SO MANY
PIECES AND IMPLEMENTED IN SUCH A CONVOLUTED WAY.

I ALSO DISLIKE THE IDEA OF COUNTING TOWARDS THE 850 MECU THE
NOT EASILY QUANTIFIED BENEFIT OF RECEIVING THE MONEY

3-6 MONTHS EARLIER THAN WAS AGREED ON 25 MAY. AND THERE IS
A SMALL RISK THAT OUR CONTRIBUTION BEFORE REFUNDS WILL FALL
BELOW THE 75 PERCENT THRESHOLD.

3. BUT WE MUST ALSO LOOK AT THE ALTERNATIVES. THE PRESIDENCY PROPOSAL GUARANTEES US A BILLION ECU GROSS BEFORE THE END OF THE YEAR. THE FRENCH HAVE SHOWN THAT THEY ARE QUITE WILLING TO GO ON BLOCKING THE IMPLEMENTATION OF THE AGREEMENT. THEY ARE UNDER NO TIME CONSTRAINT. WE ARE. THE BUDGETARY ACTION NEEDED TO PERMIT THE COMMISSION TO PAY THE MONEY BEFORE THE END OF OUR FINANCIAL YEAR WILL BE AT RISK IF WE BREAK TOMORROW WITH NO DEAL.

4. FURTHERMORE, THE FRENCH HAVE WON BACK A LOT OF SYMPATHY TODAY BY SHOWING FLEXIBILITY. WHEREAS AT THE SEPTEMBER COUNCIL THEY WERE BEING QUITE UNREASONABLE AND WERE ENTIRELY ISOLATED, THEY HAVE TODAY PROPOSED A SOLUTION WHICH THE COMMISSION HAVE ENDORSED. THEY HAVE STOPPED TRYING TO PREVENT THE UK FROM RECEIVING THE 65 MECU IN DISPUTE AND SWITCHED THEIR POSITION TO INSISTENCE THAT THE UK BE SATISFIED WITH A SERIES OF DEVICES WHICH THE COMMISSION HAVE TOLD THE COUNCIL WILL IN THEIR JUDGEMENT GIVE THE UK WHAT WE NEED. I HAVE HAD NO SUCCESS AT ALL IN PERSUADING THE COUNCIL THAT THE RECEIPT OF ABILLION ECU THREE OR MORE MONTHS EARLY IS VALUELESS. THIS MEANS THAT THE SCENARIO HAS CHANGED VERY SIGNIFICANTLY FROM THE ONE WHICH WE DISCUSSED ON 20 OCTOBER. IF WE REJECTED THE DEAL WE SHOULD BE CONSIDERED UNREASONABLE. WE COULD EXPECT NO COOPERATION FROM THE COMMISSION OVER OUR PLAN TO WITHOLD WITHOUT LEGISLATION. AND WE WOULD BE THOUGHT TO HAVE REACTED IN A DISPROPORTIONATE WAY IF WE LEGISLATED TO WITHOLD BECAUSE WE FELT UNABLE TO ACCEPT SOMETHING WHICH SEEMS TO THE OTHERS TO GIVE US OUR ESSENTIAL REQUIREMENTS WHILE ALSO MEETING THE POLITICAL DIFFICULTIES OF FRANCE AND ITALY.

5. THE DEAL POTENTIALLY ON OFFER HAS, FOR ALL ITS OBVIOUS FAULTS, CERTAIN CLEAR MERITS. THE COMMISSION HAVE PROVIDED US WITH FIGURES FOR THE MOVEMENT OF THE COMMISSION'S CASH BALANCE IN THE UNITED KINGDOM IN 1981 AND 1982 -- SEE MY IFT. THEIR FIGURES SHOW THAT THE PRESIDENCY PROPOSAL WOULD RESULT IN A LARGE BRINGING FORWARD OF MONEY BY COMPARISON WITH WHAT HAPPENED LAST YEAR WITH OUR AGREEMENT. WE HAVE ALWAYS REGARDED THE DELAYED PAYMENT OF OUR REFUNDS AS A VERY SIGNIFICANT CONCESSION BY THE UK. WE CANNOT CONSISTENTLY REGARD SUCH AN ACCELERATION AS BEING WITHOUT VALUE.

AS BEING WITHOUT VALUE.

• A FURTHER ADVANTAGE NOW ON OFFER TO US IS THE BRINGING FORWARD OF THE PAYMENT OF THE SUM DUE UNDER THE RISK-SHARING FORMULA FROM 1984 TO 1983.

7. I HAVE CONSIDERED WHETHER WE MIGHT TRY TO PERSUADE THE GERMANS TO ACCEPT THE DELAY OF THE WHOLE OF THEIR REFUNDS UNTIL 1983 AND ACCEPT 1092 MECU GROSS IN 1982, THE REST OF THE PROBLEM BEING POSTPONED UNTIL NEXT YEAR. I FEEL THIS WOULD BE TOO RISKY. THE GERMANS WOULD VERY LIKELY REFUSE. IF THEY GOT 210 MECU IN 1982 AND WE ONLY GOT 1092 MECU, WE COULD NOT PRETEND THAT WE HAD RECEIVED 850 NET. AND EVEN IF THEY DID AGREE TO POSTPONEMENT, WE SHOULD PROBABLY FIND OURSELVES NEXT YEAR IN THE POSITION OF BLOCKING THE GERMAN REFUNDS (AN UNDENIABLE PART OF THE 25 MAY AGREEMENT) BECAUSE OF THE CONTINUED DISPUTE ABOUT OUR 65 MECU.

8. I HAVE THEREFORE REACHED THE CONCLUSION THAT IT IS IN THE UK INTEREST TO ACCEPT THE PRESIDENCY PROPOSAL, IF THE FRENCH WILL, RATHER THAN RUN THE RISKS THAT I HAVE DESCRIBED. I SHOULD BE GRATEFUL TO KNOW YOUR MIND BEFORE 1000 HOURS LONDON TIME TOMORROW.

FCO ADVANCE TO:

FCO - PS PS/PUS FALL SPRECKLEY

CAB- STAPLETON

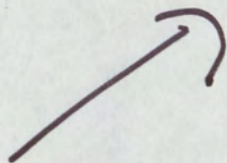
TSY - CHANCELLOR COUSENS HEDLEY-MILLER

MAUD

[ADVANCED AS REQUESTED]

MNNN

1092.



208 new.

65

GPS 800
CONFIDENTIAL
FM LUXEMBOURG 261425Z OCT 82
TO FLASH FCO
TELEGRAM NUMBER 348 OF 26 OCTOBER
INFO IMMEDIATE EC POSTS

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Geno Budget

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Press Office

Nº 10 Downing St.

FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL 26 OCTOBER 1982
1982 REFUNDS

SUMMARY

1. AGREEMENT REACHED SUBJECT TO A FRENCH RESERVE FOR 3 DAYS.
SEVERAL DECLARATIONS REQUESTED BY UK WILL BE ENTERED IN THE COUNCIL MINUTES.

DETAIL

2. ELLEMANN-JENSEN (PRESIDENCY) ASKED IF ALL DELEGATIONS COULD ACCEPT THE REVISED TEXT PREPARED BY THE PRESIDENCY AND COMMISSION. YOU ASKED TO HEAR OTHER DELEGATIONS' POSITIONS BEFORE STATING YOUR POSITION.

3. AS THERE WERE NO DISSENTING VOICES, YOU SPOKE FIRST. YOU THANKED THE PRESIDENCY AND COMMISSION FOR THEIR EFFORTS BUT SAID THAT THE PROPOSAL WAS NOW VERY COMPLICATED. YOU DESCRIBED IT AS 'A DOG'S BREAKFAST' AND INSISTED THAT THE COUNCIL SHOULD IN FUTURE LOOK FOR A CLEARER AND NEATER SOLUTION. BUT FOR 1982 YOU WERE PREPARED TO TAKE THE PROPOSAL AS A BASIS FOR A SETTLEMENT. YOU NOTED THAT THERE WAS NO EXPLICIT REFERENCE TO THE 25 PER CENT OF OUR CONTRIBUTION TO THE GERMAN REFUNDS NOT COVERED BY RISK-SHARING AND THAT THIS WAS NOW PROVIDED FOR BY BRINGING FORWARD THE PAYMENTS ORIGINALLY INTENDED FOR 1983 AND 1984 INTO 1982 AND 1983 RESPECTIVELY. UK AGREEMENT WAS SUBJECT TO FOUR DETAILED POINTS.

(A): THERE MUST BE A DECLARATION IN THE MINUTES THAT IN THE EVENT OF THE UK NET CONTRIBUTION FALLING BELOW 1730 M ECU, THE COMMISSION WOULD MAKE A PROPOSAL FOR MAKING GOOD THE SHORTFALL AND THE COUNCIL WOULD TAKE THE APPROPRIATE DECISION. YOU PROPOSED A FORM OF WORDS.

(B): THE DECLARATION ON PARA 6 ABOUT ANTICIPATING THE DISCUSSION OF THE ALLEGED OVERPAYMENT WAS NOW REDUNDANT AND SHOULD BE DELETED.

(C): IT SHOULD BE MADE CLEAR BY AN ENTRY IN THE MINUTES THAT THE COMPENSATION TO GERMANY WOULD BE PART OF THE ALLOCATED BUDGET FOR 1982, THUS ENABLING US TO RECEIVE 75 PER CENT REIMBURSEMENT OF OUR CONTRIBUTION TO IT.

(D): THE REFERENCE TO A 'SUBSEQUENT SOLUTION' IN PARA 7 SHOULD BE ACCOMPANIED BY AN ENTRY IN THE MINUTES SAYING THAT THE PAPER BEFORE MINISTERS ON 25 MAY HAD REFERRED TO '1983 AND LATER' AND THAT THE FRENCH RESERVE HAD SAID THAT IN THEIR VIEW THIS MEANT 1983 AND 1984.

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14.

4. REGARDING A THORN ACCEPTED THE PRINCIPLE OF THE PROPOSED DECLARATION ABOUT THE UK'S ESTIMATED NET CONTRIBUTION. CHANDERNAGOR OBJECTED. YOU SAID THE POINT WAS CRUCIAL. ELLEMANN-JENSEN SAID THAT AS THE COUNCIL WAS ALWAYS WILLING TO CONSIDER AND REACH CONCLUSIONS ON COMMISSION PROPOSALS HE CONCLUDED THAT THERE WAS AGREEMENT ON THIS DECLARATION.

5. REGARDING B, FIORET SAID THE DECLARATION ABOUT PARA 6 WAS ESSENTIAL. CHANDERNAGOR AGREED. LAUTENSCHLAGER (GERMANY) SUPPORTED ITS DELETION. YOU SAID THAT IF THE FRENCH AND ITALIANS INSISTED ON RETAINING THEIR DECLARATION, YOU WOULD WANT A COUNTER-DECLARATION. YOU PROVIDED A TEXT. LAUTENSCHLAGER ASKED FOR A GERMAN DECLARATION. IT WAS AGREED THAT ALL THREE DECLARATIONS WOULD APPEAR IN THE COUNCIL MINUTES.

6. A UK TEXT CONTAINING A DECLARATION ON (C) WAS AGREED.

7. REGARDING (D), CHANDERNAGOR INSISTED THAT 'SUBSEQUENT SOLUTION' WAS THE PHRASE AGREED BY MINISTERS. YOU EXPLAINED AGAIN THAT ALL YOU WANTED WAS A CLARIFICATION OF WHAT ACTUALLY HAPPENED AND WERE NOT TRYING TO REOPEN THE DISCUSSION. ELLEMANN-JENSEN CONCLUDED THAT THIS WOULD BE DONE.

8. NOTERDAEME (BELGIUM) SUGGESTED THAT 'SURPLUSES FROM EARLIER YEARS' IN PARAS 5 AND 6 SHOULD BE AMENDED TO '1981 AND 1982' AND THAT THE COMPENSATION TO GERMANY WOULD BE OBLIGATORY EXPENDITURE. THIS WAS AGREED.

9. LAUTENSCHLAGER MADE THE FOLLOWING POINTS:

- THE NET COMPENSATION TO GERMANY THROUGH THE 1982 BUDGET SHOULD BE 148 MECU NOT 146 MECU. THORN AGREED;
- HE NOTED THAT THE GERMAN COMPENSATION, THOUGH ENTERED IN THE 1982 BUDGET, WOULD BE PAID IN 1983;
- THEY WANTED THE POSSIBILITY OF ADVANCE PAYMENTS IN 1982 KEPT OPEN;
- IT WAS ESSENTIAL THAT THE IMPLEMENTING REGULATION FOR GERMAN REFUNDS BE ADOPTED BEFORE THE END OF 1982.
- FINALLY HE DREW ATTENTION TO GENSCHER'S STATEMENT ON 25 MAY THAT THE GERMAN CONTRIBUTION TO ANY REFUNDS TO THE UK IN FUTURE SHOULD BE REDUCED TO 25 PER CENT.

10. O'ROURKE (IRELAND) SAID THEIR AGREEMENT WAS CONDITIONAL ON THE COMPENSATION FOR IRELAND, AS ONE OF THE LESS PROSPEROUS, PRODUCING SATISFACTORY RESULTS.

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11. ELLEMANN-JENSEN TRIED TO CONCLUDE THAT THE COUNCIL HAD AGREED ON THE REVISED PROPOSAL AND TO THE VARIOUS ENTRIES IN THE MINUTES WHICH HAD BEEN PROPOSED. CHANDERNAGOR INTERVENED TO SAY THAT THE POSITION REACHED MARKED A CONSIDERABLE DEPARTURE FROM THE 25 MAY AGREEMENT. THEY HAD NOT AGREED YESTERDAY TO BRINGING FORWARD THE RISK-SHARING FROM 1984 TO 1983. IT WAS THEREFORE NECESSARY TO RESERVE THEIR POSITION ON THE WHOLE AGREEMENT FOR 3 DAYS. YOU MADE IT CLEAR THAT BRINGING FORWARD THE RISK-SHARING INTO 1983 WAS A PRE-CONDITION FOR UK AGREEMENT. ELLEMANN-JENSEN THEN CONCLUDED THAT THERE WAS AGREEMENT SUBJECT TO A FRENCH RESERVE FOR 3 DAYS AND INVITED THE COMMISSION TO PREPARE THE NECESSARY IMPLEMENTING ACTION.

FCO ADVANCE TO:

FCO : EVANS, SPRECKLEY, FRY, PS/SOS, STAPLETON, DURIE

CAB : PS/ARMSTRONG, HANCOCK

TSY : PS/CHANCELLOR, COUZENS, HEDLEY-MILLER, PEET

UKREP BRUSSELS: CURRIE, BUTT (FULL)

LOCKTON

ADVANCED AS REQUESTED

LIMITED
ECD (1)
NEWS .D
PS
PS/MR HURD
PS/PUS
SIR J BULLARD
MR EVANS

COPIES TO:
PS/CHANCELLOR
SIR K COUZENS
MRS HEDLEY-MILLER
MR PEET
PS/SIR R. ARMSTRONG
MR HANCOCK
MR INGHAM
MR COLES
MR STAPLETON
MR DURIE
H.M. TREASURY
CABINET OFFICE
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CABINET OFFICE