

Prime Minister

MR COLES

VISIT OF PRESIDENT MITTERAND 17 MAY  
30 MAY MANDATE

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D.P.T. Collins  
D. G. de K.  
14/5

h.c. 10/5

The news from Brussels today suggests that the Commission quite probably will respond to the offer (in the Foreign Secretary's message to the two Presidents of 14 May) to consider urgently a formal proposal by the Commission to extend the 30 May agreement to a third year. But the Commission proposal is likely to include an adjustment for the overpayment, whereas our objective, as approved by Ministers on 14 May, is to secure a refund of 66 per cent of the Commission estimate of our unadjusted net contribution for 1982, plus a risk-sharing formula that will give us 75 per cent of any overshoot.

The Commission estimate of our unadjusted net contribution in 1982 is thought to be 1,620 million ecus. 66 per cent of that is 1,069 million ecus. The Commission are trying hard to please the Germans by offering us no more than 800 million ecus. To achieve this end they may average the refund over three years and argue that 800 million ecus gives us far more than 66 per cent on average and therefore more than we are entitled to, so that we should accept it and be grateful. The underlying calculation is as follows -

<u>Year</u>	<u>Unadjusted net contribution</u>	<u>Refunds</u>
1980	1512	1175
1981	1422	1410
1982	1620	800
	<u>4552</u>	<u>3385</u>

3385 million ecus is 74 per cent of 4554 million ecus.

This possible argument makes Monsieur Mauroy's offer of 900 million ecu very useful. It is at least a further step away from 66 per cent of our unadjusted net contribution averaged over three years. But it is still a long way short of our objective. The Prime Minister will therefore need to exercise further pressure on the French in her talks with the President tomorrow.

Line to take with President Mitterand

The Prime Minister could make the following points:-

i. It remains our firm preference to negotiate a settlement for 4 or 5 years. Why give up when we have got so far?

ii. But if others decided that this was impossible, then we would be prepared to consider urgently a formal proposal by the Commission in the terms of paragraph 7 of 30 May agreement. This paragraph requires the Commission to make proposals "on the lines of the 1980 to 1981 solution" and it requires the Council to act accordingly.

iii. In the United Kingdom view, the essential features of the 30 May agreement which would need to be reflected in its extension to 1982 are -

1530 a. a refund of 66 per cent of the Commission estimate of the  
1010 United Kingdom's unadjusted net contribution for 1982. We  
believe this figure to be 1620 million ecus. The 30 May agreement  
therefore requires a refund of 1069 million ecus.

b. a risk-sharing formula giving the United Kingdom 75 per cent of an overshoot in our unadjusted net contribution at the margin.

[This phrase is deliberately vague to **obscure** the difference between the risk-sharing formula for 1980 and that for 1981]

President Mitterand will not wish to go into detail. But if he wants the matter further discussed with his officials, I am of course at their disposal.

I would recommend the Prime Minister not to mention the figure of 1200 million ecus in President Mitterand's presence. We do not know for sure that Monsieur Attali has ever reported that figure to his President. He mentioned it in totally confidential discussions with Sir Robert Armstrong and myself. It would endanger this useful channel of communication with the French President if Monsieur Attali was embarrassed in front of his boss.

CONFIDENTIAL

There may be more news of the Commission's intentions late tonight.  
If so, I will submit a further note tomorrow morning before the  
President arrives.

D.H.

D J S HANCOCK

Cabinet Office

16 May 1982

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