

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
FRIDAY 21 MAY 1982 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon Baroness Young
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon Lord Cockfield
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon Douglas Hurd MP
Minister of State, Foreign
and Commonwealth Office

Sir Michael Butler
United Kingdom Permanent
Representative to the European
Communities

SECRETARIAT

Sir Robert Armstrong
Mr D J S Hancock
Mr D M Elliott

SUBJECT

THE LUXEMBOURG COMPROMISE AND NEXT STEPS ON THE BUDGET

THE LUXEMBOURG COMPROMISE AND NEXT STEPS ON THE BUDGET

The Committee considered a Note by the Secretary of State for Foreign and Commonwealth Affairs (OD(82) 39) reviewing the situation created in the Community by the majority vote taken in the 18 May Agriculture Council in defiance of the United Kingdom veto and proposing how the United Kingdom should respond on the Luxembourg compromise and the budget problem at the 24/25 May Council of Ministers (Foreign Affairs) and associated meetings. A Note by Officials on the budget was annexed to his paper. The Committee also had before it a minute dated 20 May from the Secretary of State for Energy to the Prime Minister agreeing with the broad approach proposed in the Foreign and Commonwealth Secretary's Note, and making some suggestions about the conduct of the negotiations in the longer term.

In preliminary discussion, it was reported that, in recent talks with the Chancellor of the Exchequer, Count Lambsdorff, the German Economics Minister, had said that it would, in his view, be very difficult to secure agreement at the Foreign Affairs Council on 24 May to a further extension of the regulation under Article 113 of the Treaty imposing sanctions against Argentina. It was suggested that, if this change in the Community's attitude were in fact to prevent the renewal of the trade embargo, it must call into question the other trade sanctions in which the United Kingdom participated at no small cost in the general interests of the West eg those against Iran and the USSR. Solidarity should be indivisible, and the burden of defending the common interest in peace and democracy should be borne by our partners as well as the United Kingdom.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the voting through of the agricultural price proposals in defiance of the United Kingdom's veto was a major setback for our budget strategy in the Community and for the Government's broader aim of demonstrating that Community membership was in Britain's overall interest. He nevertheless believed that British interests would be best served by avoiding any specific action which might prejudice efforts to limit the extent of the crisis. We should therefore approach the crisis in two stages, confining initial decisions to the requirements of next week's meetings in Brussels and reviewing thereafter what might then be necessary in the light of what happened at those meetings. So far as the Luxembourg compromise was concerned, he proposed to make an opening statement on 24 May

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placing on record the Government's dismay at the breach of the compromise, and making clear that there must now be a fundamental reappraisal of the future of the compromise. On the budget, he considered that the United Kingdom should make a major effort at next week's Council to settle the refunds for 1982, in order to allow a pause for the air to clear before negotiations on a longer term arrangement were resumed later in the year. It was possible that our partners might be prepared to avoid any widening of the crisis by agreeing next week to United Kingdom refunds for 1982 on a reasonable scale; but there was in his view no possibility in present circumstances of a longer term solution being settled then. Even if we had to accept a refund of 850 mecu for 1982 this would represent a recovery rate of 75 per cent over the three years of the 30 May 1980 Agreement and could thus be presented to public opinion as a reasonable outcome.

In discussion of the Luxembourg compromise, it was reported that Count Lambsdorff had confirmed that the German Government regarded the compromise as an important feature of Community life and intended to maintain it in being. He had sought to justify the inconsistent decision taken by the Germans at the 18 May Agriculture Council by arguing that the United Kingdom had been unable to demonstrate any genuine vital national interest in the individual components of the common price package when they were taken one by one. Moreover the Germans did not accept the linkage we had made with the budget problem and, according to Count Lambsdorff, the United Kingdom had been given warning of the likelihood of a majority vote by Federal Chancellor Schmidt. The Chancellor of the Exchequer had forcefully rebutted these arguments. Agricultural prices and their budgetary impact on the United Kingdom were connected both organically and by virtue of the November 1981 European Council Agreement, to which all member states had subscribed, on parallel progress on each leg of the 30 May mandate. The unheralded overriding of our veto in the Agriculture Council had been a serious breach of faith and represented a challenge to one of the central principles of Community life, namely that each member state must in the last resort be the best judge of its own national interest. There was general agreement that despite the justifiable bitterness occasioned by this breach of the Luxembourg compromise and the hollowness of the arguments advanced by some of our partners in support of it, it would be wise to defer consideration of a definitive Government response until the reactions of the other member states to the Foreign and Commonwealth Secretary's proposed Council statement could be assessed. An initial line would nevertheless be needed for the Parliamentary debate scheduled for 26 May.

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In discussion of the United Kingdom budget problem the following points were made -

a. Duration

Although there was a risk that a one year agreement now, accompanied by a commitment to settle the longer term before the end of the year, might enable the other member states to use the impending Common Fisheries Policy negotiations to bring pressure to bear on the United Kingdom on the budget, this risk would still exist if we abandoned the idea of a one year agreement for 1982 and reverted to a multi-annual solution starting in the same year. There was in any event no prospect of our partners agreeing to a satisfactory long-term agreement next week. On balance, therefore, it would be better to aim for an acceptable level of refunds for 1982 on a basis which did not prejudice our requirements for the remaining years, coupled with a commitment to achieve a solution for those years well before the access derogations on fish expired at the end of 1982.

b. Withholding

If the United Kingdom could show some flexibility, the other member states might agree to a satisfactory one year solution at next week's Council in order to avoid worsening the crisis created by their actions on 18 May. It would be needlessly provocative and wasteful to use the withholding weapon for the 1982 refunds alone; and it was too soon to threaten to withhold to secure a longer-term solution since there was no chance of such a negotiation in the immediate future. Given the loss of our agricultural prices veto, it might very well prove necessary to withhold or threaten to withhold at a later stage. But our immediate aim should be to exploit the bad consciences of our partners to get the 1982 refunds agreed. We should not put ourselves in the wrong by taking steps which could only accentuate the crisis.

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c. Figures

Given the hitherto rigid German view that the United Kingdom refund for 1982 should not exceed 800 mecu, and the resentment of all our partners about the windfall gain we had made from the 30 May Agreement it would not be possible to get agreement to a basic refund of 1000 mecu; ie two thirds of 1530 mecu. There was no specific warrant in the 30 May Agreement for a two thirds refund in 1982, and there was a danger that, if we pressed for it, the others would argue that it should apply to the three years as a whole. The 800 mecu on offer was in any case a base figure; the total refund actually received by the United Kingdom would turn on the nature of the risk-sharing provisions that would apply if the forecast unadjusted United Kingdom net contribution proved to be different from the out-turn.

d. Risk Sharing

The risk-sharing provisions were thus of key importance. The 1980 formula was more advantageous to the United Kingdom than the 1981 formula, in that the former gave us 75 per cent of any excess but the latter introduced an effective franchise of 70 mecu to be borne by the United Kingdom before the 75 per cent came into play. We should avoid any further projection of this degressivity into the risk-sharing provisions for 1982, and seek to secure an amalgam of the 1980 and 1981 formulae. If that proved impossible to negotiate, we might fall back on a continuation of the 1981 provisions. We should also accept downward risk-sharing on the same terms so as to avoid being asked to accept a minimum net contribution for 1982. If this were achieved and our out-turn unadjusted net contribution proved, as seemed likely, to be nearer 1900 mecu than the Commission forecast of 1530 mecu, we should get 200-300 mecu more back on top of the basic refund.

e. Alleged Over-payment

We should not offer the gesture proposed in paragraph 11 of the Note by Officials lest it provoke demands for a larger sum to be paid back. It would be better to accept a basic refund of 850 mecu. But the

difference between two thirds of 1530 mecu and 850 mecu could, nonetheless, be presented to opinion in the United Kingdom as a gesture made in recognition of the unintendedly favourable outcome achieved in 1981.

THE PRIME MINISTER, summing up the discussion, said that in the last week our partners had dealt the United Kingdom three serious blows. They had extended the Argentine trade embargo for only one week and its coverage was no longer complete; they had presented the United Kingdom with an unacceptable take-it-or-leave-it offer on the budget; and, with the exception of Denmark and Greece, they had brushed aside the Luxembourg compromise in the Agriculture Council without discussion or warning. The Committee nevertheless agreed that the United Kingdom should not react in such a way as to make the crisis worse or to prejudice our own fundamental interests in the Community. Subject to the points made in discussion, they therefore endorsed the Foreign and Commonwealth Secretary's general approach to the 24/25 May Foreign Affairs Council and associated meetings, and agreed that he should make a holding statement recording the Government's total dismay at what had happened but without prejudging its future attitude to the Luxembourg compromise which would need to be decided after those meetings had taken place. The Foreign and Commonwealth Secretary should also arrange for a line to be agreed for the Government spokesman in the debate on 26 May. On the budget, the United Kingdom could agree to a 1982 solution with a minimum refund of 850 million ecus with upward and downward risk-sharing provisions which were not less favourable than the formula for 1981 in the 30 May agreement. The agreement must be accompanied by a commitment to settle the longer-term problem well before the end of 1982. We could in no circumstances accept a minimum net contribution.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Foreign and Commonwealth Secretary to be guided accordingly.

Cabinet Office

21 May 1982