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NOTE OF A MEETING

RECORD OF CONVERSATION BETWEEN THE FOREIGN AND COMMONWEALTH
SECRETARY AND THE PRESIDENT OF THE EEC COUNCIL OF MINISTERS
AND THE PRESIDENT OF THE EUROPEAN COMMISSION AT 1035 HOURS
ON 16 MARCH 1982 AT 10 DOWNING STREET

Present: Foreign and Commonwealth Secretary M. Tindemans
Sir Michael Butler M. Thorn
Mr Hancock M. Robert Vaes
M. Durieux
M. Thuysbaert

1. Immediately following the discussion recorded in the note attached to Mr Coles letter to Mr Richards of 16 March, the meeting continued with the Foreign and Commonwealth Secretary until 11 am.
2. M. Thorn said that the other member states would never agree to endorse a statement of the problem as seen by the United Kingdom. At least six of them would refuse. They would not admit that the United Kingdom had an eternal right to compensation. All they were likely to agree to was a mechanism which would reimburse some 60-65% of the relevant gap, with agreement to look at the problem again after, say, 3 years. Other governments would not accept commitments beyond their next elections. Lord Carrington said that the negotiations in January had gone further than M. Thorn had implied. All had agreed to 4 years with a formula for a review. The real problem was going to be the size of the refund. The United Kingdom for their part were not going to accept that they had a God-given duty to pay large sums to people richer than themselves.
3. Sir Michael Butler said that the first step was to define the size of the United Kingdom problem. The objective indicator gap would amount to something less than two-thirds of it. The problem had to be defined in relation to the financial mechanism

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gap as well. The negotiations could not reach the decisive stage until there had been agreement on such a method of defining the problem. M. Thorn replied that he did not personally have strong views on the financial mechanism, although he would not wish to be quoted. But he knew that the United Kingdom would not secure agreement to its continuation. He did not understand why the United Kingdom was insisting on figures for 1982. These would be higher than the figures the Commission had tabled. The other Member States were far more likely to agree to a high percentage if the discussion was confined to low figures for 1980 and 1981. He asked why the United Kingdom needed the financial mechanism if it had the prospect of getting a 100% reimbursement for the objective indicator back. Sir Michael Butler explained that that would be only about 60% of our unadjusted net contribution which was simply not conceivable as a settlement to the problem.

4. M. Tindemans said that the other Member States did not see the problem as the United Kingdom saw it. They claimed that the United Kingdom had accepted the Treaty and all the consequences of it. No other Member State ever calculated the benefits and costs of membership in the way that the United Kingdom did. The benefits of industrial trade were never evaluated. They did not accept that there was a British problem. The Foreign Secretary said that he did not wish to disabuse others of their illusions so long as the settlement lasted for a reasonable period of time. The problem would look quite different by the end of that period. When we negotiated the Treaty we had said that the present problem would arise; others said that it would not but agreed to put it right if it did. As it happened we were proved right. It was possible that the problem would now disappear; but that could obviously not be taken for granted. The United Kingdom was not asking to be given a present. We had said that we were prepared to be a modest net contributor. That was a contribution to the Community. The French had been significant net beneficiaries, even though they were richer than the United Kingdom. There was no need to say that the corrective

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arrangement would be required in perpetuity.

5. M. Thorn said that it would be much easier to negotiate a lump sum straddling the next few years in which a number of Member States had elections than to agree to a percentage of the objective indicator gap. He and M. Tindemans would try to avoid the word "degressivity". But if the United Kingdom insisted on a percentage, the other Member States would say that it should fall over the period of the settlement. Sir Michael Butler said that the way forward was to build on where we had got to in January. It should be fairly easy to get agreement on the 5 or 4 years duration plus a review. The next requirement was to add the financial mechanism gap to the objective indicator gap. If we could secure agreement to that, the final negotiation could then take place over the size of the percentage. If other Member States tried to fix a lump sum figure in advance, the arrangement might go wrong again as it had in 1980 and 1981.

6. M. Tindemans said that he did not think that British Ministers realised how bad the atmosphere was. The other Member States had severe political difficulties. The Foreign Secretary replied that the only real political difficulty was the fact that Mitterrand had criticised the 30 May Agreement. He thought that it should be possible to find a way of dealing with Mitterrand's presentational problem.

7. M. Thorn asked whether it would be possible to unlock Chapter I of the Mandate, even if the rest were not settled by the end of the month. The Foreign Secretary did not commit himself, but stressed that Chapter II could not be unlocked because of its organic link with Chapter III.

8. Finally, M. Tindemans said that he was still not at all sure what document the two Presidents should circulate for the meeting on 23 February. They had been thinking that

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the right approach would be to circulate one final attempt at compromise and say that the Foreign Ministers should either take it or leave it. But having heard what they had heard in Paris and London, they could see no hope of defining a compromise which stood a chance of being acceptable to either side. The Foreign Secretary said that the problem would clearly not be solved on 23 March but the aim should be to get the method for the solution agreed on that occasion.

DJSH

17 March 1982

Distribution:

- Private Secretary, No 10 Downing Street
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