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FM UKREP BRUSSELS 231825Z MAR 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 1190 OF 23 MARCH
INFO EC POSTS

FOREIGN AFFAIRS COUNCIL 22-23 MARCH: 30 MAY MANDATE

1. AT HIS PRESS CONFERENCE AFTER THE COUNCIL, TINDEMANS MADE THE FOLLOWING COMMENTS:
THE PROPOSAL PUT BY THORN AND HIMSELF HAD BEEN WELL RECEIVED: ALL MEMBER STATES HAD INDICATED REAL INTEREST IN IT AS A VALID BASIS FOR DISCUSSION AT THE POLITICAL LEVEL. THE QUESTION WOULD NOT BE ON THE AGENDA OF THE EUROPEAN COUNCIL, BUT INDIVIDUAL HEADS OF GOVERNMENT COULD OF COURSE SPEAK ABOUT IT. THERE WAS CLOSE COOPERATION BETWEEN THE PRESIDENT OF THE COMMISSION AND HIMSELF ON THE ISSUE.

2. TINDEMANS EVADED SUPPLEMENTARY QUESTIONS AND DETAILS, INCLUDING

ON THE ISSUE.

2. TINDEMANS EVADED SUPPLEMENTARY QUESTIONS AND DETAILS, INCLUDING DEGRESSIVITY. HE SAID THAT THE PROPOSAL WAS DESIGNED TO AVOID THE BOOBY TRAPS INHERENT IN BOTH THE GUIDELINES APPROACH AND SETS OF FIGURES.

3. SEE MIFT

FCO ADVANCE TO:
FCO - NEWS DEPT PS PS/LPS PS/PUS BRIDGES HANNAY
CAB - HANCOCK ELLIOTT WENTWORTH
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FM UKREP BRUSSELS 231737Z MAR 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 1187 OF 23 MARCH
INFO PRIORITY EC POSTS

FOREIGN AFFAIRS COUNCIL: 23 MARCH
MANDATE

SUMMARY

1. THORN AND TINDEMANS, HAVING STARTED THE MEETING APPARENTLY EMPTY-HANDED, CONCOCTED A PROPOSAL FOR DEALING WITH THE UK BUDGET PROBLEM. OVER LUNCH AND DURING A BRIEF AFTERNOON SESSION MOST OTHER MINISTERS WELCOMED THIS INITIATIVE. LORD CARRINGTON NOTED A NUMBER OF GOOD AND NOT SO GOOD FEATURES OF THE PROPOSAL. MINISTERS AGREED TO

CARRINGTON NOTED A NUMBER OF GOOD AND NOT SO GOOD FEATURES OF THE PROPOSAL. MINISTERS AGREED TO PURSUE THE DISCUSSION IN DETAIL, WITH A VIEW TO REACHING FINAL DECISIONS, IN LUXEMBOURG ON 3 APRIL.

DETAIL

2. TINDEMANS, OPENING THE MEETING, REFERRED TO THE REMIT TO THORN AND HIMSELF ON 25 JANUARY. IT WAS TO SOUND OUT CAPITALS, NOT TO FORMULATE PROPOSALS. THEY HAD FOUND IRRECONCILIABLE POSITIONS. HE THEREFORE CALLED ON FOREIGN MINISTERS TO REVIEW THEIR POSITIONS, ESPECIALLY THOSE AT THE TWO EXTREMES.

3. GENSCHER (GERMANY) URGED COLLEAGUES TO AVOID RESTATING POSITIONS AND ASKED THE TWO PRESIDENTS TO MAKE A PROPOSAL. COLOMBO (ITALY) MADE A PLEA THAT THE DISCUSSION SHOULD MOVE MATTERS FORWARD. AGREEING, YOU SAID THE MEETING SHOULD START FROM THE POINTS WHICH HAD BEEN PROVISIONALLY AGREED LAST TIME. TINDEMANS THEN LISTED THE OUTSTANDING POINTS ON THE BUDGET GUIDELINES AND YOU MADE A STATEMENT ON THE UK'S POSITION.

4. YOU SAID THAT IT HAD BEEN AGREED IN ALL THE DISCUSSIONS FLOWING FROM THE COMMISSION'S REPORT OF JUNE LAST YEAR THAT THE PROBLEM SHOULD BE MEASURED BY OBJECTIVE INDICATORS. THE PROBLEM CONSISTED TO TWO PARTS: DISPROPORTIONATE CONTRIBUTIONS AND RECEIPTS. IT MADE NO SENSE TO IGNORE THE CONTRIBUTIONS GAP IN DETERMINING THE SIZE OF THE PROBLEM. THE COMMISSION HAD RECOGNISED THE ROLE OF THE FINANCIAL MECHANISM IN PARA 47 OF THEIR REPORT. YOU HAD THEREFORE BEEN PUZZLED BY A LETTER FROM THORN SAYING THAT THE FINANCIAL MECHANISM GAP SHOULD NOT BE COVERED. YOU WERE NOT ARGUING ABOUT THE LEVEL OF REFUNDS: THIS WAS FOR LATER BUT THE CHOSEN METHOD MUST MEASURE THE REAL PROBLEM, NOT SOME OTHER PROBLEM. THE PRESENT FINANCIAL MECHANISM PROVIDED FOR 100 PER CENT COMPENSATION. YOU COULD ACCEPT A REDUCTION IN THIS IN EXCHANGE FOR A UNIFORM RATE OF NET COMPENSATION APPLYING BOTH TO THE CONTRIBTUIONS GAP AND THE RECEIPTS GAP. YOU CIRCULATED A TABLE WHICH SHOWED THAT THE CONTRIB-UTIONS GAP WAS LIKELY TO ACCOUNT FOR ONE THIRD OF THE UK PROBLEM IN 1982 COMPARED WITH 10-15 PER CENT FOR 1980 AND 1981.

5. THORN REACTED. THE COUNCIL HAD NOT SAID IT WAS IN FAVOUR OF A FINANCIAL MECHANISM, THE UK APPROACH WAS BASED ON THE UNACCEPTABLE CONCEPT OF NET BALANCES AND THE UK FIGURES EXAGGERATED THE SIZE OF THE 1982 PROBLEM. HE AGREED THAT THE CONTRIBTUIONS GAP WOULD NOT BE AS HIGH AS ONE THIRD IN 1982.

EXAGGERATED THE SIZE OF THE 1982 PROBLEM. HE AGREED THAT THE CONTRIBTUIONS GAP WOULD NOT BE AS HIGH AS ONE THIRD IN 1982. MOREOVER, 1982 WAS EXCEPTIONAL.

6. YOU SAID THAT YOU HAD HEARD THORN USE THE FIGURE OF 1800M ECU. THE DIVISION BETWEEN THE RECEIPTS GAP AND THE CONTRIBUTIONS GAP MIGHT BE UNCERTAIN BUT THE ESSENTIAL UK POINT WAS THAT A SOLUTION COULD NOT BE BASED ON ONLY PART OF THE PROBLEM.

7. TINDEMANS CONCLUDED THAT AS THERE WAS NO AGREEMENT TO DEAL WITH BOTH GAPS OR ON AN OBJECTIVE INDICATOR IT WOULD BE BEST TO TRY TO AGREE ON THE AMOUNT OF THE COMPENSATION FOR THE UK. YOU POINTED OUT THAT, IF THIS MEANT A RETREAT FROM OBJECTIVE INDICATORS TO A LUMP SUM, THERE WAS A DANGER THAT - AS WITH THE 30 MAY AGREEMENT - IT WOULD TURN OUT TOO BIG OR TOO SMALL.

8. THERE WAS A BREAK OF ABOUT ONE AND A HALF HOURS DURING WHICH THE TWO PRESIDENTS CONFERRED. WHEN THE MEETING RESUMED, TINDEMANS PRODUCED THEIR PROPOSAL IN A NON PAPER (CONTAINED IN MIFT). HE EXPLAINED THAT IT WAS THE JOINT RESPONSIBILITY OF HIMSELF AND THORN. IT TOOK ACCOUNT OF THEIR SOUNDINGS AND OF ELEMENTS IN PARAGRAPHS 2 AND 3 OF THE GUIDELINES. HE PROPOSED THAT MINISTERS SHOULD ADJOURN TO LUNCH AND THAT COREPER SHOULD MEET TO OBTAIN CLARIFICATION.

9. MINISTERS AGREED OVER LUNCH THAT IT WOULD NOT BE FRUITFUL TO DISCUSS THE DETAILS OF THE PROPOSAL TODAY: IT WOULD FLOUNDER. INSTEAD THEY WOULD HAVE A SECOND READING DEBATE AND MEET AGAIN ON 3 APRIL IN LUXEMBOURG WITH A VIEW TO REACHING DECISIONS. IT EMERGED THAT CHEYSSON HAD NO INSTRUCTIONS. HE DENIED ANY LINK BETWEEN THIS ISSUE AND AGRICULTURAL PRICES.

10. COREPER MET IN PARALLEL TO HEAR A MORE DETAILED EXPLANATION BY NOEL (COMMISSION) OF THE PROPOSALS (REPORTING LETTER BY BAG TO SPRECKLEY).

11. WHEN THE COUNCIL RESUMED IN THE AFTERNOON, TINDEMANS SAID THAT THE DISCUSSION OVER LUNCH HAD SHOWN THE POSSIBILITY OF MOVEMENT. DISCUSSIONS MUST THEREFORE PROCEED AT THE POLITICAL LEVEL AND MINISTERS SHOULD MEET ON 3 APRIL. HE INVITED INITIAL REACTIONS.

12. CHEYSSON (FRANCE) WELCOMED THE TEXT AS INTERESTING.

ON 3 APRIL BE INVITED INTO THE NEGOTIATIONS.

12. CHEYSSON (FRANCE) WELCOMED THE TEXT AS INTERESTING. HE PUT DOWN A NUMBER OF MARKETS FOR 3 APRIL: THE BUDGET WAS ONLY ONE OF THE ISSUES COVERED BY THE GUIDELINES, HE RESERVED ON FIVE YEARS, PAYMENTS TO THE UK SHOULD BE IN ARREARS AND HE NOTED THE REFERENCE TO RISK-SHARING ARRANGEMENTS.

13. YOU THANKED THE PRESIDENTS FOR THEIR EFFORTS AND SAID THAT YOU WOULD NOT REACT HASTILY OR TORPEDO IT. YOU WELCOMED THE MOVE FORWARD FROM PURE GUIDELINES. YOU SAW SOME GOOD ELEMENTS, AND SOME NOT SO GOOD, IN IT. GOOD WAS THE RECOGNITION OF FIVE YEARS, THAT A LUMP SUM WAS NOT ADEQUATE AND THAT THE RECEIPTS GAP WAS NOT THE WHOLE PROBLEM. MORE DIFFICULT WAS THE TREATMENT OF RISK-SHARING IN PARAGRAPH 2, THE ABSENCE OF A REVIEW IN 1986 AND THE FACT THAT THE WHOLE OF THE CONTRIBUTIONS GAP WAS NOT COVERED. YOU ASKED THE COMMISSION TO PROPOSE AN AUTOMATIC FORMULA ON RISK SHARING. YOU POINTED OUT THAT A MID-TERM REVIEW IN 1984 PRESENTED A POLITICAL PROBLEM FOR THE UK GOVERNMENT.

14. GENSCHER SAID THE PROPOSAL WAS A GOOD BASIS FOR A SOLUTION. IN PRINCIPLE HE COULD AGREE TO IT. COLOMBO SAW THE POSSIBILITY OF A SOLUTION ON THESE LINES. VAN DER STOEL (NETHERLANDS) THOUGHT IT WAS A POSSIBLE BASIS FOR AGREEMENT. THERE REMAINED A PROBLEM ABOUT FINANCING AND PARAGRAPH 3 NEEDED CLARIFICATION. COLLINS (IRELAND) REFERRED TO THEIR PROBLEMS WITH OTHER CHAPTERS BUT HOPED THESE COULD BE RESOLVED. KEERSMAECKER (BELGIUM) THOUGHT IT WAS A BALANCED PROPOSAL AND THEY WOULD REACT CONSTRUCTIVELY. OLESEN (DENMARK) CONCURRED WITH THE FAVOURABLE COMMENTS. A SOLUTION SHOULD BE FOUND WITHIN THE BUDGET. THEY WOULD BE CONSTRUCTIVE.

15. THORN SAID THIS REPRESENTED THE COMMISSION'S LAST EFFORT. A SOLUTION DEPENDED NOW ON MINISTERS. AGRICULTURE AND OTHER ISSUES SHOULD BE DISCUSSED ON THEIR MERITS.

16. YOU INSISTED THAT IF THE COUNCIL AGREED ON A METHOD ON 3 APRIL IT MUST ALSO SETTLE THE MISSING FIGURES (X, Y, Z). ALL SHOULD COME PREPARED TO DO THIS. CHEYSSON AGREED.

17. TINDEMANS, SUMMING UP THE DISCUSSION, SAID THERE WAS CLEAR INTEREST IN THE PROPOSAL. NO ONE WISHED TO MEET IN PARALLEL WITH THE EUROPEAN COUNCIL AND SO FOREIGN MINISTERS WOULD CONVENE IN LUXEMBOURG ON 3 APRIL IN THE HOPE THAT IT WOULD BE THE DAY OF FINAL DECISION.

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DAY OF FINAL DECISION:

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CAB - ARMSTRONG DESKBY 231900 ,HANCOCK ELLIOTT
MAFF - HAYES, HADDON
TSY - COUZENS, LITTLER, EDWARDS

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TELNO 1191 OF 23 MARCH
INFO PRIORITY EC POSTS.

FOREIGN AFFAIRS COUNCIL 22-23 MARCH:

30 MAY MANDATE

1. IN SPEAKING TO THE PRESS IMMEDIATELY AFTER THE COUNCIL YOU TOOK THE FOLLOWING LINE.

GENERAL

2. USEFUL DISCUSSION OF MANDATE.

THE TWO GAPS

3. TOOK THE OPPORTUNITY TO CLARIFY THE "TWO GAPS" AND TO CIRCULATE A DIAGRAM WHICH ILLUSTRATED AND EXPLAINED THE POINTS.

THE TWO GAPS

3. TOOK THE OPPORTUNITY TO CLARIFY THE ''TWO GAPS'' AND TO CIRCULATE A DIAGRAM WHICH ILLUSTRATED AND EXPLAINED THE POINTS. THE REAL SCALE OF THE PROBLEM DERIVES FROM THE CUMULATIVE EFFECT OF TWO ELEMENTS. BRITAIN, ONE OF THE LESS PROSPEROUS MEMBER STATES, NOT ONLY GETS DISPROPORTIONATELY SMALL SHARE OF RECEIPTS BUT ALSO PAYS DISPROPORTIONATELY LARGE SHARE OF CONTRIBUTIONS.

PRESIDENCY PROPOSAL

4. WELCOMED THE MAJOR EFFORT MADE BY THE TWO PRESIDENTS IN PRESENTING THEIR PROPOSAL. WE IN BRITAIN WILL STUDY IT WITH VERY GREAT CARE, WHICH IT FULLY DESERVES. WRONG TO PRE-EMPT THIS BY HASTY COMMENT. THEREFORE OFFER ONLY THE MOST TENTATIVE FIRST REACTIONS.

5. IT IS A CONSTRUCTIVE INITIATIVE WITH A NUMBER OF VERY WELCOME FEATURE. REPRESENTS A STEP FORWARD FROM THE EARLIER GUIDELINES TO THE DISCUSSION OF A METHOD OF ACTUALLY CALCULATING A BUDGETARY CORRECTIVE ARRANGEMENT. FOR TOO LONG WE HAVE BEEN DISCUSSING THINGS IN A VACUUM.

WELCOME ELEMENTS

6. A. FIVE YEARS. SURE THAT IT WOULD BE RIGHT TO TAKE DIVISIVE ISSUE OUT OF NEGOTIATING FORUM FOR SUBSTANTIAL PERIOD, BUT IT MUST BE A REAL FIVE YEAR SETTLEMENT.

B. RECOGNITION THAT A SINGLE LUMP-SUM APPROACH IS NOT ADEQUATE: THE SOLUTION MUST BE RELATED IN SOME WAY TO THE SCALE OF THE PROBLEM, WHICH WILL CHANGE OVER TIME.

C. RECOGNITION THAT THE GAP BETWEEN BRITAIN'S GDP SHARE AND BRITAIN'S RECEIPTS DOES NOT REFLECT THE WHOLE OF THE PROBLEM.

PROBLEMS

7. AT FIRST SIGHT THERE ARE REAL DIFFICULTIES.

A. THE PROPOSAL AS IT STANDS DOES NOT CONTAIN ENOUGH PRECISION TO ENSURE THAT WE AVOID A RENEGOTIOTATION EVERY YEAR. WE NEED A FORMULA WHICH CAN BE APPLIED TO FUTURE YEARS. AND WE NEED SOME ILLUSTRATIVE FIGURES SO THAT WE CAN SEE HOW IT WILL WORK OUT IN PRACTICE. THIS I THINK THE COMMISSION ARE GOING TO PROVIDE US WITH.

B. THE CONTRIBUTIONS GAP IS INCOMPLETELY COVERED BY THE FORMULA WHICH RELATES TO VAT. THIS IS A REAL PROBLEM.

B. THE CONTRIBUTIONS GAP IS INCOMPLETELY COVERED BY THE FORMULA WHICH RELATES TO VAT. THIS IS A REAL PROBLEM.

C. THERE IS NO PROVISION FOR REVIEW. THIS WILL CLEARLY BE NEEDED.

D. I AM NOT AT ALL HAPPY ABOUT THE DISTINCTION BETWEEN A THREE YEAR PERIOD OF CERTAINTY AND A NEW NEGOTIATION BEFORE THE LAST 2 YEARS. (THAT WOULD BE 1984 - HARDLY A GOOD YEAR TO HAVE IT).

CONCLUSION

8. SO THERE IS STILL A LONG WAY TO GO. BUT ALL OF US ARE CONTENT TO USE THIS PROPOSAL AS A BASIS OF FURTHER DISCUSSION, AND WE ARE TO MEET AGAIN IN LUXEMBOURG ON SATURDAY 3 APRIL TO CONSIDER IT FURTHER AND TO AGREE ON THE FIGURES FOR X, Y, AND Z (A REFERENCE TO THE PRESIDENCY TEXT). THERE WAS GENERAL AGREEMENT WITH MY VIEW THAT THESE SHOULD BE FIXED ON 3 APRIL.

9. IT WAS A GOOD BASIS FOR DISCUSSION, BUT I SUSPECT THAT MEETING IN LUXEMBOURG WILL BE HARD WORK.

FCO ADVANCE TO:
FCO - PS/SOFS, PS/LPS, PS/PUS, BRIDGES, HANNAY, NEWS DEPT
CAB - HANCOCK, ELLIOTT, WENTWORTH
MAFF - ANDREWS
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TO IMMEDIATE FCO
TELEGRAM NUMBER 1194 OF 23 MARCH
INFO EC POSTS WASHINGTON
INFO SAVING UKDEL NATO

FOREIGN AFFAIRS COUNCIL 23 MARCH:
PREPARATION OF EUROPEAN COUNCIL

SUMMARY

1. GENERAL AGREEMENT ON APPROACH OUTLINED IN MARTENS' LETTER TO HEADS OF GOVERNMENT (MY TELNO 1171). YOU GAVE NOTICE THAT THE PRIME MINISTER WOULD PROBABLY WISH TO RAISE THE MANDATE. POLITICAL DIRECTORS TO MEET ON FRIDAY 26 MARCH TO PREPARE POLITICAL COOPERATION SUBJECTS.

DETAIL

DETAIL

2. THORN AND ORTOLI INTRODUCED THE COMMISSION'S PAPER ON THE ECONOMIC AND SOCIAL SITUATION, THE LATTER ARGUING THAT THE EUROPEAN COUNCIL NEEDED TO HAVE A SERIOUS DISCUSSION NOT JUST EXCHANGE SPEECHES AND THEN ISSUE BLAND WORDS. EACH HEAD OF GOVERNMENT SHOULD COME WITH A CLEAR IDEA OF WHAT THE MEMBERS OF THE COMMUNITY OUGHT TO BE DOING TOGETHER. OLESEN (DENMARK), AFTER HARD WORDS ABOUT THE LACK OF A DANISH TEXT OF THE COMMISSION PAPER, SUPPORTED THE LINE IN MARTENS' LETTER. TINDEMANS QUOTED FROM IT TO DEMONSTRATE THAT MARTENS AGREED WITH ORTOLI'S APPROACH. VAN DER STOEL (NETHERLANDS) HOPED THAT THE PRESIDENCY WOULD PREPARE DRAFT CONCLUSIONS INCORPORATING DEFINITE ACTION.

3. YOU SAID THAT THE PRIME MINISTER WOULD PROBABLY FEEL THAT IT WOULD BE VERY DIFFICULT IF THERE WERE NO MENTION OF THE 30 MAY MANDATE AT THE EUROPEAN COUNCIL: YOU SUSPECTED THAT SHE WOULD WISH TO RAISE IT. VARFIS (GREECE) REMINDED THE COUNCIL THAT PAPANDREOU WOULD WISH TO SPEAK TO THE GREEK MEMORANDUM.

4. VAN DER STOEL WANTED THE EUROPEAN COUNCIL TO DISCUSS CENTRAL AMERICA. HE WAS CONVINCED THAT THINGS WERE GETTING RAPIDLY WORSE IN THE AREA. THE RECENT MEXICAN IDEAS FOR DE-ESCALATION SHOULD BE EXAMINED. FOREIGN MINISTERS SHOULD DISCUSS AT DINNER ON 29 MARCH. CHEYSSON RATHER GRUDGINGLY AGREED WITH TINDEMANS THAT MITTERRAND WOULD ALSO PROBABLY WISH TO DISCUSS CENTRAL AMERICA. THERE WAS TACIT AGREEMENT THAT POLAND AND EAST/WEST SHOULD BE DISCUSSED. TO THE SUGGESTION OF A DISCUSSION ON THE MIDDLE EAST YOU SAID THAT FOREIGN MINISTERS HAD NOT TALKED ABOUT THE PROBLEM FOR TWO MONTHS OR SO AND SHOULD DO SO BEFORE HEADS OF GOVERNMENT MET.

5. AT THE END OF THE POLITICAL COOPERATION DISCUSSION WHICH THEN FOLLOWED (SEPARATELY REPORTED) TINDEMANS AGREED THAT POLITICAL DIRECTORS SHOULD MEET ON FRIDAY 26 MARCH TO PREPARE EUROPEAN COUNCIL DISCUSSION ON :

(A) MIDDLE EAST (ESPECIALLY RECENT EVENTS ON THE WEST BANK):
(B) CENTRAL AMERICA IN THE LIGHT OF THE EL SALVADOR ELECTIONS:
(C) VIETNAMESE REFUGEES:
(D) EAST/WEST (ADJOURNMENT OF CSCE, POLAND, EAST BLOC INDEPTEDNESS, AND TRANSATLANTIC ASPECTS).

IT WAS NOT CLEAR WHETHER TURKEY WOULD ALSO BE DISCUSSED.