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TO IMMEDIATE BRUSSELS  
TELEGRAM NUMBER 64 OF 26 MARCH  
AND TO IMMEDIATE UKREP BRUSSELS,  
PRIORITY TO ALL OTHER EC POSTS.

30 MAY MANDATE

1. FOLLOWING IS THE TEXT OF A MESSAGE FROM ME TO M. TINDEMANS ABOUT THE PRESIDENCY/COMMISSION TEXT (UKREP TELNO 1188). PLEASE ARRANGE DELIVERY URGENTLY. PLEASE ALSO ENSURE THAT H. THORN RECEIVES A COPY. OTHER POSTS SHOULD MAKE THESE POINTS AT A SENIOR LEVEL TO FOREIGN AND FINANCE MINISTRIES AFTER THE EUROPEAN COUNCIL BUT BEFORE 3 APRIL.

BEGINS

I AM MOST GRATEFUL TO YOU AND GASTON THORN FOR THE EFFORTS YOU MADE AT OUR MEETING ON 23 MARCH TO GIVE AN IMPULSE TO THE SEARCH FOR A SETTLEMENT OF THE 30 MAY MANDATE. I PARTICULARLY WELCOME YOUR INITIATIVE IN PUTTING FORWARD YOUR JOINT IDEAS FOR THE METHOD OF DECIDING THE AMOUNT OF COMPENSATION TO BE PAID TO THE UK. AS I SAID DURING THE MEETING, THERE ARE A NUMBER OF ELEMENTS IN THE TEXT WHICH I WELCOME, BUT SOME DIFFICULTIES. WE SHALL WANT TO EXAMINE THESE CAREFULLY, BUT I AM SURE THAT YOUR PROPOSALS WILL PROVIDE A GOOD BASIS FOR OUR DISCUSSION ON 3 APRIL. OUR CONSIDERATION OF THEM WILL NATURALLY BE GREATLY HELPED BY HAVING THE ILLUSTRATIVE FIGURES WHICH THE COMMISSION AGREED TO PROVIDE, AND I HOPE THAT THESE WILL BE MADE AVAILABE IN GOOD TIME.

I THOUGHT THAT IN MAKING YOUR OWN PREPARATIONS FOR OUR NEXT MEETING YOU AND GASTON THORN MIGHT FIND IT HELPFUL IF I GAVE YOU AN ACCOUNT OF OUR MAIN PREOCCUPATIONS WITH THE METHOD

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WHICH YOU HAVE PUT FORWARD.

LET ME START WITH THE QUESTION OF DURATION. I NATURALLY WELCOME YOUR SUGGESTION THAT THIS SHOULD BE FIVE YEARS. I AM SURE THAT IT IS RIGHT TO TAKE THIS ISSUE RIGHT OUT OF COMMUNITY POLITICS FOR A SUBSTANTIAL PERIOD SO THAT WE CAN CONCENTRATE ON THE OTHER URGENT TASKS WHICH FACE US. TO ACHIEVE THIS OBJECTIVE, WHICH I AM SURE THAT WE ALL SHARE, WE MUST HOWEVER HAVE AN ARRANGEMENT WHICH GENUINELY PROVIDES A FIVE-YEAR BREATHING SPACE. I AM CONCERNED THAT THE IDEAS NOW ON THE TABLE WOULD NOT GIVE US THAT, AND IN PARTICULAR I HAVE GREAT DOUBTS ABOUT THE IDEA OF FIXING THE METHOD OF DECIDING THE AMOUNT OF COMPENSATION FOR THE FIRST THREE YEARS ONLY, SO THAT WE WOULD NEED TO HAVE A COMPLETELY FRESH NEGOTIATION TO DECIDE ON THE ARRANGEMENTS FOR THE LAST TWO YEARS.

AS REGARDS THE METHOD YOU PROPOSE FOR APPLYING THE OBJECTIVE INDICATOR, THIS IS RATHER COMPLICATED AND I WOULD PREFER SOMETHING SIMPLER. I AGREE WITH YOU THAT IT WOULD BE INSUFFICIENT SIMPLY TO SPECIFY FIXED SUMS OF COMPENSATION. THERE MUST BE PROVISION FOR ADJUSTING THE AMOUNT OF COMPENSATION IN THE LIGHT OF VARIATIONS IN THE OBJECTIVE INDICATOR, AND I ACCEPT THAT, UNLIKE THE 30 MAY 1980 ARRANGEMENTS, THE POSSIBILITY THAT THE ACTUAL GAP WILL TURN OUT LOWER THAN EXPECTED SHOULD BE ALLOWED FOR AS WELL AS THE POSSIBILITY OF ITS BEING HIGHER. AT THE MOMENT I AM INCLINED TO THINK THAT IT MAY RISE, BUT IF, AS HAPPENED IN 1981, CAP EXPENDITURE DID NOT GROW AS EXPECTED, THE GAP COULD WELL TURN OUT LOWER. BUT I ALSO THINK THAT IF WE ARE TO AVOID AN ANNUAL NEGOTIATION OVER THE FIGURES - WHICH I THINK WE ALL BELIEVE WOULD BE DIVISIVE AND DAMAGING TO THE COMMUNITY - THEN WE SHALL NEED TO HAVE A METHOD OF ADJUSTMENT WHICH IS CLEAR, PRECISE AND OF DIRECT APPLICATION. I FEAR THAT THE PRESENT SUGGESTION OF PROPOSALS ON EACH OCCASION FROM THE COMMISSION FOLLOWED BY DECISIONS BY THE COUNCIL WOULD NOT PROVE SATISFACTORY IN PRACTICE, AND I DO NOT THINK IT WOULD BE RIGHT TO LEAVE UNADJUSTED A DIVERGENCE OF AS MUCH AS 10 PERCENT IN EITHER DIRECTION. WHAT I WOULD PROPOSE THEREFORE IS THAT ON AND BEFORE 3 APRIL WE SHOULD ALL BEND

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OUR MINDS TO THE TASK OF FINDING AN ALTERNATIVE METHOD WHICH WOULD ENABLE US TO GET AWAY FROM ANNUAL NEGOTIATIONS BUT AT THE SAME TIME GIVE THE CERTAINTY THAT EVEN IF THERE IS SOME UNEXPECTED VARIATION IN THE OUTTURN THE RESULT WILL BE EQUITABLE FOR ALL CONCERNED. I AM SURE THAT SOMETHING OF THIS SORT CAN BE DEvised.

AT OUR MEETING ON 23 MARCH I EXPLAINED THAT THE CONTRIBUTIONS GAP WAS AN IMPORTANT ELEMENT IN THE UK PROBLEM AND CIRCULATED SOME FIGURES DESIGNED TO ILLUSTRATE THIS. I AM PLEASED THAT IN PARAGRAPH 3 OF YOUR NON-PAPER YOU HAVE PUT FORWARD A SUGGESTION WHICH IS CLEARLY DESIGNED TO TAKE SOME ACCOUNT OF THIS PROBLEM, BUT YOUR PROPOSAL WOULD NOT IN MY VIEW PROVIDE AN ADEQUATE SOLUTION. WHAT IS NEEDED IS AN OBJECTIVE INDICATOR WHICH MEASURES THE WHOLE OF THIS PROBLEM RATHER THAN ONE WHICH MEASURES ONLY A PART OF IT. IN SAYING THIS, I AM NOT ARGUING THAT THE UK SHOULD RECEIVE 100 PERCENT COMPENSATION FOR THE WHOLE GAP: I ACCEPT THAT WE SHOULD RECEIVE AN AGREED PERCENTAGE LESS THAN 100 PERCENT. BUT IT SHOULD BE A PERCENTAGE APPLIED TO THE WHOLE EXTENT OF THE PROBLEM. PERHAPS I SHOULD ADD THAT I DO NOT UNDERSTAND THE FEELING SOMETIMES EXPRESSED THAT AN INDICATOR MEASURING THE WHOLE GAP WOULD IN SOME WAY BE CONTRARY TO COMMUNITY PRINCIPLES. SUCH AN INDICATOR IS NOT A NEW IDEA: THERE ARE PRECEDENTS BOTH IN THE DUBLIN FINANCIAL MECHANISM AND IN THE AGREEMENT OF 30 MAY 1980. AND CUSTOMS DUTIES AND AGRICULTURAL LEVIES COLLECTED IN THE UK, EVEN THOUGH THEY ARE THE COMMUNITY'S OWN RESOURCES, DO PLACE A BURDEN ON UK TAXPAYERS AND CONSUMERS IN JUST THE SAME WAY AS DO VAT CONTRIBUTIONS. IT IS THE DISPROPORTIONATE AMOUNT PAID UNDER BOTH HEADINGS WHICH CONSTITUTES AN IMPORTANT PART OF THE UK'S BUDGET PROBLEM.

FINALLY, AS I SAID ON 23 MARCH, I ATTACH IMPORTANCE TO INCLUDING PROVISION FOR A REVIEW OF THE OPERATION OF THE ARRANGEMENT TOWARDS THE END OF THE 5 YEAR PERIOD. THIS NEED NOT OF COURSE PREJUDGE WHETHER THE ARRANGEMENT OR SOMETHING ON SIMILAR LINES WILL CONTINUE AFTER THE PERIOD. THAT WOULD DEPEND ON THE SITUATION AT THE TIME. NO-ONE WOULD BE MORE

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DELIGHTED THAN THE BRITISH GOVERNMENT IF BY THEN THE PROBLEM HAD CEASED TO EXIST AND THERE WERE NO NEED FOR ANY CORRECTIVE ARRANGEMENTS. BUT UNFORTUNATELY EXPERIENCE SUGGESTS THAT WE CANNOT AFFORD TO MAKE THAT ASSUMPTION. IT IS INCONCEIVABLE THAT IF THE PROBLEM CONTINUED THE COMMUNITY SHOULD SIMPLY TURN ITS BACK ON IT AND LEAVE IT UNRESOLVED, AND I THEREFORE THINK THAT WE MUST FIND SOME LANGUAGE ABOUT A REVIEW, PERHAPS ON THE LINES OF THE TEXT OF 18 JANUARY.

I HOPE THAT YOU WILL FIND IT USEFUL TO HAVE THESE COMMENTS IN ADVANCE OF OUR MEETING ON 3 APRIL. I AM PARTICULARLY GLAD THAT YOUR PROPOSALS WILL PROVIDE A BASIS ON WHICH WE CAN ON 3 APRIL TRY TO AGREE NOT ONLY ON A METHOD BUT ON A FULL SETTLEMENT INCLUDING THE FIGURES. I THINK THAT WE ARE ALL INCREASINGLY AWARE OF THE NEED TO FIND AN EARLY SOLUTION OF THESE PROBLEMS AND OF THE RISKS IF WE DO NOT. I SHALL BE APPROACHING OUR NEXT MEETING IN A SPIRIT OF DETERMINATION TO FIND A BASIS FOR AGREEMENT.

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