



Prime Minute

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Qz.02522

MR COLES

EUROPEAN COUNCIL: 30 MAY MANDATE

At her briefing meeting on 24 March the Prime Minister asked for a draft speaking note on the Mandate for use at the European Council. This is attached in a form agreed with the Departments concerned. We believe that it will be most effective if it is confined to the main political points, and in particular to the need to make parallel progress on the three chapters of the Mandate, as agreed at Lancaster House.

2. Also attached to this minute are four Annexes as follows:-

Annex A - the text of the "non paper" by the Presidency and the Commission.

Annex B - the five essential changes that the Foreign Secretary will be seeking to make in that proposal.

Annex C - the text of a message which the Foreign Secretary is sending today to Monsieur Tindemans and Monsieur Thorn.

ANNEX D - a supplementary speaking note for the Prime Minister to use if it is suggested that the UK should agree to an agricultural price settlement in advance of an agreement on the budget problem.

D.H.

D J S HANCOCK

26 March 1982

cc: Mr Wright  
Mr Elliott  
Mr Wentworth  
Mr Rhodes

Sir K Couzens )  
Mr Littler )  
Mrs Hedley-Miller ) HMT  
Mr Edwards )

PS/Foreign and Commonwealth Secretary )  
Lord Bridges )  
Mr Hannay ) FCO  
Mr de Fonblanque )

Mr Andrews, MAFF  
Sir M Butler, UKREP



As Foreign Ministers are to meet soon, I do not want to press for a discussion here and now about the details of a solution. I would like, however, to make a few general points which I hope Foreign Ministers will bear in mind.

First, we must try to give the Community a period of stability by taking this problem out of the arena of political discussion for a substantial period. A budget solution which involved either negotiations about figures every year, or another major negotiation like this one in two or three years time, would not give the Community the breathing space that it needs if it is to respond effectively to the challenges presented by its internal economic problems and an increasingly dangerous world environment.

Second, the method of correction must deal with the problem in its entirety and must be sufficiently flexible to ensure a fair outcome if circumstances change.

Third, the scale of compensation must be fair. As a less prosperous Member State, the UK could reasonably expect to be a net beneficiary of the Community's financial arrangements, especially in view of the common commitment to the convergence of the economies of the member states. We realise that such a big change

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in the present financial pattern would creat<sup>a</sup> problems for our partners and we are ready to take account of this. But we can see no justification for the United Kingdom being more than a very modest net contributor.

These seem to me to be essential political points which Foreign Ministers will need to bear in mind. I hope that we can all agree that it is in the interests of the Community that all aspects of the Mandate should now be resolved with all possible speed and that we should instruct Foreign Ministers accordingly.

NON PAPER

Subject: specific details of items 2 and 3 of the document of 18 January 1982 from the Council General Secretariat

1. The Community will grant compensation to the United Kingdom for 5 years, starting in 1982.
2. The basic amount of this compensation will be set at a uniform level for 1982, 1983 and 1984 of  $\frac{1}{x}$  million ECU  $\frac{1}{7}$ . This amount represents  $y$  % of the objective indicator for 1981. If this ratio between the compensation and the objective indicator varies in 1982, 1983 or 1984 by more than 10 %, a correction will be made on the basis of a Commission proposal, on which the Council will take a decision by a qualified majority.
3. A further correction will be made if the United Kingdom's V.A.T. share exceeds its GDP share. This compensation will represent  $z$  % of the difference.
4. The amount of compensation for 1985 and 1986 will be decided on by the Council before the end of 1984 acting unanimously on a proposal from the Commission.

ESSENTIAL CHANGES IN THE "NON-PAPER"

- a. A genuine five-year solution and not one which would involve a fresh negotiation in the third year.
- b. A review at the end of the period of agreement.
- c. A method of dealing with changes in the size of the receipts gap (as measured by the Commission's objective indicator) which is both more flexible and more automatic.
- d. A method of dealing with the whole of the contributions gap and not just part of it.
- e. Figures which produce an acceptable net contribution for the UK after compensation.

OUT TELEGRAM

ANNEX C

Classification and Caveats

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7 TO IMMEDIATE ~~BRUSSELS~~ BRUSSELS  
8 TELEGRAM NUMBER  
9 AND TO PRIORITY ALL EC POSTS  
10 30 MAY MANDATE

IMMEDIATE URREP  
BRUSSELS,

11 1. Following is the text of a message from me to M. Tindemans  
12 about the Presidency/Commission text (UKREP Telno 1188).  
13 Please arrange delivery urgently. Please also ensure  
14 that M. Thorn receives a copy. Other posts should make these  
15 points at a senior level to Foreign and Finance Ministries  
16 after the European Council but before 3 April.  
17 BEGINS  
18 I am most grateful to you and Gaston Thorn for the efforts  
19 you made at our meeting on 23 March to give an impulse  
20 to the search for a settlement of the 30 May Mandate. I  
21 particularly welcome your initiative in putting forward  
22 your joint ideas for the method of deciding the amount of  
23 compensation to be paid to the UK. As I said during the  
24 meeting, there are a number of elements in the text which  
25 I welcome, but some difficulties. We shall want to examine

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Drafted by (Block capitals) G H FRY		
Telephone number 233-5701		
Authorised for despatch		
Comcen reference	Time of despatch	

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2 these carefully, but I am sure that your proposals will pro-  
3 vide a good basis for our discussion on 3 April. Our con-  
4 sideration of them will naturally be greatly helped by  
5 having the illustrative figures which the Commission agreed  
6 to provide, and I hope that these will be made available in  
7 good time.

8 I thought that in making your own preparations for our next  
9 meeting you and Gaston Thorn might find it helpful if I  
10 gave you an account of our main preoccupations with the method  
11 which you have put forward.

① 12 Let me start with the question of duration. I naturally  
13 welcome your suggestion that this should be five years. I am  
14 sure that it is right to take this issue right out of Com-  
15 munity politics for a substantial period so that we can con-  
16 centrate on the other urgent tasks which face us. To achieve  
17 this objective, which I am sure that we all share, we must  
18 however have an arrangement which genuinely provides a five-year  
19 breathing space. I am concerned that the ideas now on the table  
20 would not give us that, and in particular I have great doubts  
21 about the idea of fixing the method of deciding the amount of  
22 compensation for the first three years only, so that we would  
23 need to have a completely fresh negotiation to decide on the  
24 arrangements for the last two years.

② 25 As regards the method you propose for applying the objective  
26 indicator, this is rather complicated and I would prefer some-  
27 thing simpler. I agree with you that it would be insufficient  
28 simply to specify fixed sums of compensation. There must be  
29 provision for adjusting the amount of compensation in the  
30 light of variations in the objective indicator, and I accept  
31 that, unlike the 30 May 1980 arrangements, the possibility  
32 that the actual gap will turn out lower than expected should  
33 be allowed for as well as the possibility of its being higher. ~~END~~

34 ~~CARRINGTON NNNN~~

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2 At the moment I am inclined to think that it may rise, but  
 3 if, as happened in 1981, CAP expenditure did not grow as  
 4 expected, the gap could well turn out lower. But I also  
 5 think that if we are to avoid an annual negotiation over the  
 6 figures - which I think we all believe would be divisive  
 7 and damaging to the Community - then we shall need to have a  
 8 method of adjustment which is clear, precise and of direct  
 9 application. I fear that the present suggestion of proposals  
 10 on each occasion from the Commission followed by decisions by  
 11 the Council would not prove satisfactory in practice, and I  
 12 do not think it would be right to leave unadjusted a divergence  
 13 of as much as 10% in either direction. What I would propose  
 14 therefore is that on and before 3 April we should all bend  
 15 our minds to the task of finding an alternative method which  
 16 would enable us to get away from annual negotiations but at  
 17 the same time give the certainty that even if there is some  
 18 unexpected variation in the outturn the result will be  
 19 equitable for all concerned. I am sure that something of  
 20 this sort can be devised.

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21 At our meeting on 23 March I explained that the contributions  
 22 gap was an important element in the UK problem and circulated  
 23 some figures designed to illustrate this. I am pleased that  
 24 in paragraph 3 of your non-paper you have put forward a sugges-  
 25 tion which is clearly designed to take some account of this  
 26 problem, but your proposal would not in my view provide an  
 27 adequate solution. What is needed is an objective indicator  
 28 which measures the whole of this problem rather than one which  
 29 measures only a part of it. In saying this, I am not arguing  
 30 that the UK should receive 100% compensation for the whole  
 31 gap; I accept that we should receive an agreed percentage  
 32 less than 100%. But it should be a percentage applied to  
 33 the whole extent of the problem. Perhaps I should add that  
 34 I do not understand the feeling sometimes expressed that an

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2 indicator measuring the whole gap would in some way be con-  
 3 trary to Community principles. Such an indicator is not a  
 4 new idea; there are precedents both in the Dublin Financial  
 5 Mechanism and in the agreement of 30 May 1980. And customs  
 6 duties and agricultural levies collected in the UK, even  
 7 though they are the Community's own resources, do place a  
 8 burden on UK taxpayers and consumers in just the same way as do  
 9 VAT contributions. It is the disproportionate amount paid  
 10 under both headings which constitutes an important part of  
 11 the UK's budget problem.

12 Finally, as I said on 23 March, I attach importance to  
 13 including provision for a review of the operation of the  
 14 arrangement towards the end of the 5 year period. This need  
 15 not of course prejudge whether the arrangement or something on  
 16 similar lines will continue after the period. That would  
 17 depend on the situation at the time. No-one would be more  
 18 delighted than the British Government if by then the problem  
 19 had ceased to exist and there were no need for any corrective  
 20 arrangements. But unfortunately experience suggests that we  
 21 cannot afford to make that assumption. It is inconceivable  
 22 that if the problem continued the Community should simply  
 23 turn its back on it and leave it unresolved, and I therefore  
 24 think that we must find some language about a review, perhaps  
 25 on the lines of the text of 18 January.

26 I hope that you will find it useful to have these comments in  
 27 advance of our meeting on 3 April. I am particularly glad that  
 28 your proposals will provide a basis on which we can on 3 April  
 29 try to agree not only on a method but on a full settlement  
 30 including the figures. I think that we are all increasingly  
 31 aware of the need to find an early solution of these problems  
 32 and of the risks if we do not. I shall be approaching our next  
 33 meeting in a spirit of determination to find a basis for  
 34 agreement.

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SPEAKING NOTE FOR USE IF IT IS SUGGESTED THAT THE UK SHOULD AGREE TO AN  
AGRICULTURAL PRICE SETTLEMENT IN ADVANCE OF AN AGREEMENT ON THE BUDGET PROBLEM

We all agreed last November that progress on the three Chapters of the Mandate should be made in parallel. The measures which are being considered in the context of the price fixing are organically linked with the proposals for CAP reform which have been discussed in the context of the Mandate. For example, the price proposals cover the treatment of Mediterranean<sup>(1)</sup> products, help for small milk producers<sup>(2)</sup>, modulation of guarantees for surplus products<sup>(3)</sup> and the regime for cereals<sup>(4)</sup>. They also have implications for the proposed guideline on the rate of growth of agricultural expenditure<sup>(5)</sup>. We should not envisage decisions being taken on the CAP when comparable decisions on the implementation of the other Chapters have yet to be taken. Moreover, decisions taken now on the level of CAP prices will be a crucial determinant of the level of the UK net contribution in this and future years, and some of the current proposals, such as aid for small milk producers, and Mediterranean agriculture, would significantly add to the UK's budget burden. It would not be right to take decisions of this kind when we have still not agreed how that burden is to be alleviated.

Pa. M

{ Method and  
Figures

To be discussed

Do not agree with basis of discussion  
suggested by T. & T.

26 MAR 1952

4 12 1 2 3  
8 7 9 4  
9 1 2 3  
8 7 6 5

Do not recognize or accept  
basis T & T.

Much importance to foreign  
Ministers doing everything possible  
to settle matter rapidly