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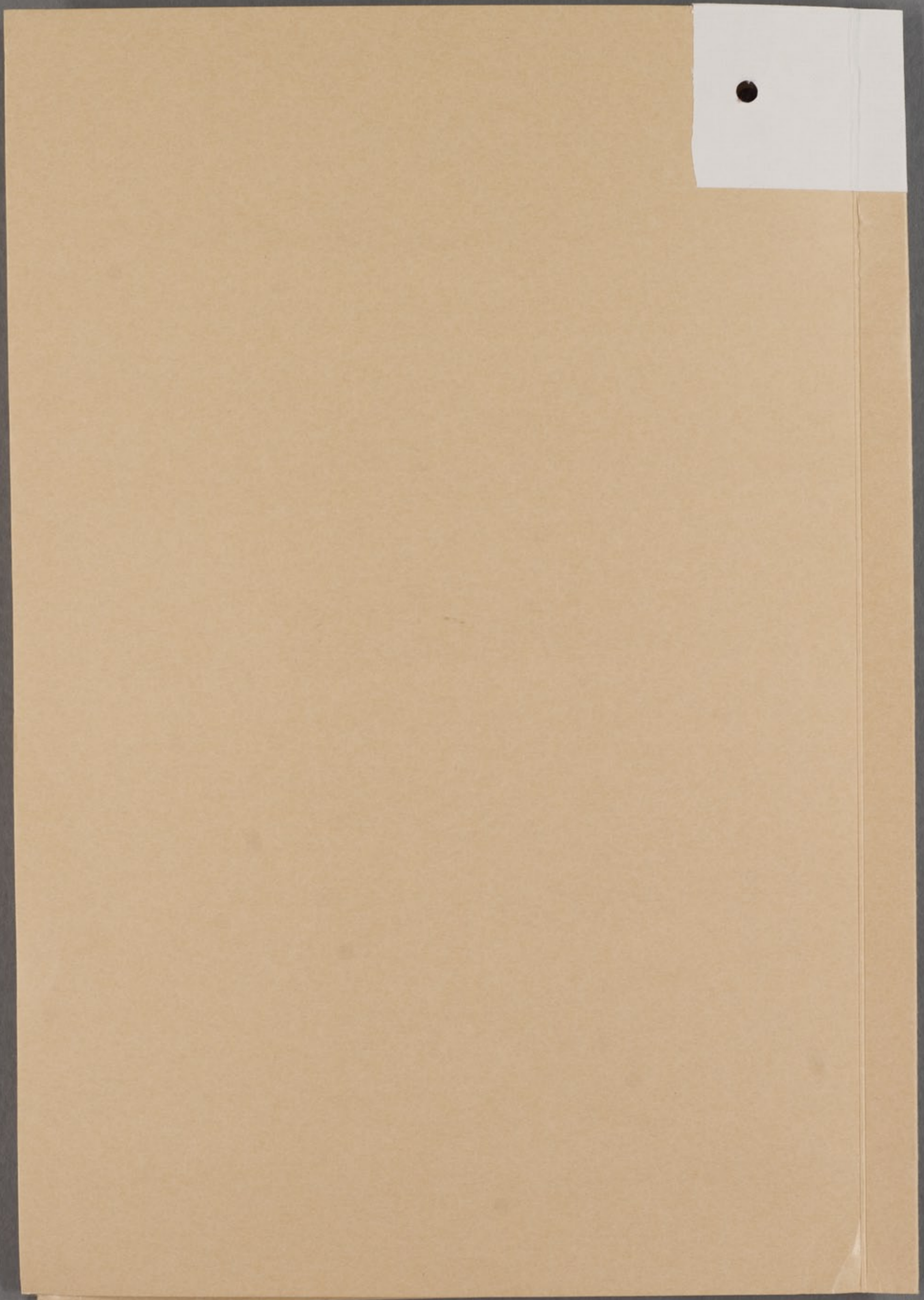
EUROPEAN POLICY

(future policy towards EEC,
including budget)

(Part 1)

SB
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PREM 19/53



Part 1

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Confidential Filing

Future policy towards the EEC.
The Community, Budget.

EUROPEAN
POLICY.

PART 1

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8.5.79							
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20.6.79							
5.7.79							
11.7.79							
<u>12.7.79</u>							
Post Ends							

PREM 19/53



TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(79) 1 st Conclusions, Item 3	10/05/79
OD(79) 1 st Meeting, Minute 3	14/05/79
CC(79) 2 nd Conclusions, Minute 3 (Extract)	17/05/79
OD(E)(79) 3	18/05/79
OD(E)(79) 4	18/05/79
OD(E)(79) 5	18/05/79
OD(E)(79) 6	21/05/79
OD(E)(79) 7	21/05/79
OD(E)(79) 8	21/05/79
OD(E)(79) 1 st Meeting, Minutes	23/05/79
CC(79) 3 rd Conclusions, Minute 3 (Extract)	24/05/79
OD(E)(79) 11	04/06/79
OD(E)(79) 2 nd Meeting, Minute 3	06/06/79
OD(E)(79) 15	08/06/79
OD(E)(79) 19	13/06/79
OD(E)(79) 20	13/06/79
CC(79) 6 th Conclusions, Minute 3	14/06/79
OD(E)(79) 21	15/06/79
OD(E)(79) 4 th Meeting, Minute 1	15/06/79
OD(E)(79) 22	19/06/79
CC(79) 7 th Conclusions, Minute 3	20/06/79
CC(79) 8 th Conclusions, Minute 3	05/07/79
OD(79) 18	05/07/79
OD(E)(79) 23	05/07/79
OD(79) 4 th Meeting, Minute 2	10/07/79
OD(E)(79) 6 th Meeting, Minutes	12/07/79
CC(79) 9 th Conclusions, Minute 4	12/07/79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed AWayland

Date 19 November 2009

PREM Records Team

COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three Member States with below-average GDP per head. In time, these difficulties should become less serious. Reductions in agricultural surpluses should reduce the cost of the c.a.p. That in itself will lighten the budgetary burden and should make it easier to switch expenditure to policies designed to reduce regional disparities. Meanwhile solutions are urgently required to ensure that the Community budget produces a fair balance of costs and benefits for all Member States and, in particular, does not continue to hinder Member States with below-average GDP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.

PART 2 begins:-

Brussels to Flo Tel 3823 13.7.79

PART 1 ends:-

OD(E)(79) 6th Mtg 12.7.79

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Ref. A09950

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary might report on his talks in Dublin on 11th July with his Irish counterpart, Mr. O'Kennedy, with particular reference to the Irish attitude towards our budget objectives.

2. Next week, there is a meeting of the Finance Council, on 16th July; the call on the Prime Minister of the Three Wise Men on 16th July; and the forthcoming inaugural session of the directly elected European Parliament on 17th-18th July, at which the United Kingdom will be represented by the Lord President of the Council. Reports might be made to Cabinet next Thursday.

Joh

(John Hunt)

11th July, 1979



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From the Secretary of State

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

10 July 1979

Dear Geoffrey,

P.A.
JH
10/7

EEC BUDGET : POST STRASBOURG STRATEGY

I am unable to attend OD on Tuesday when your paper, OD(79)18 is due to be discussed. I should therefore like to record that I fully endorse the principles and tactics which you propose.

I firmly share your view that our problem cannot be solved through greater Community expenditure. We must be careful to avoid giving any different impression, particularly in negotiations in other, related, fields. I was therefore pleased to note Nigel Lawson's cautious approach proposed in his letter of 5 July, towards increases in the 1980 Community Budget Regional and Social Funds. In such areas we can quietly accept any benefits which we may be offered. But it would be a major mistake to press hard for them.

It is of course right that we should aim for the earliest possible solution. But, if I may end with a note of caution it is that we should avoid raising expectations too much in public. As you have indicated, our partners are required to make some painful sacrifices. They may need more time than we might wish to accept the idea.

I am copying this to colleagues in OD and to Sir John Hunt.

John Nott

JOHN NOTT

10 JUL 1979



CONFIDENTIAL

Ref. A09933

PRIME MINISTER

EEC Budget: Post-Strasbourg Strategy

(OD(79) 18)

PURPOSE

To decide, on the basis of the Chancellor of the Exchequer's paper OD(79) 18, how best to follow up the procedure agreed in Strasbourg to achieve our objective of reducing the United Kingdom net contribution to the Community budget. The conclusion reached on the preceding agenda item on defence costs in Germany will affect the tactics.

BACKGROUND

2. The procedure agreed at the Strasbourg European Council (copy attached) provides first for the Commission to submit to the Finance Council a reference paper describing the financial consequences for each member state of applying the existing budgetary system; second for the member states to comment on this paper at the Council and to put forward concrete requests; and third for the Commission to present proposals to the November European Council in the light of this debate and any guidelines that emerge from it.

3. You have persuaded Mr. Jenkins to do his best to have the Commission's reference paper ready for the September Finance Council. Left to themselves the Commission would have gone for the October Council but this leaves very little time for the Commission to make their proposals and for these to be discussed and prepared for the Dublin Summit. A calendar of relevant meetings is at Annex A to the Chancellor's paper.

4. The Chancellor's paper argues that we now need to define more closely what we should go for and how we should set about getting it. His conclusions are:-

- (i) Only a new form of corrective mechanism, adequate to deal with our twin problems of an excessive gross contribution and low receipts, is likely to produce an effective solution in the timescale needed. (The note by officials at Annex B of the paper sets out the supporting arguments, which need not be discussed in detail by the Committee.)

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- (ii) We need not at this stage spell out precisely what form this corrective mechanism might take, but we should base ourselves on the proposition that the effects of the budget ought at least to be neutral for a country like the United Kingdom with below average GNP per head.
- (iii) At the Finance Council, we should aim to get agreement that an unacceptable situation exists and that the Commission should produce remedial proposals which will be effective immediately. To achieve this the idea of a radical corrective mechanism would have to be in the air by the time of the Finance Council discussion.
- (iv) We should maintain our alliance with the Italians as long as possible, but bear in mind that our budgetary aims may diverge as the November European Council approaches.
- (v) We should resist the likely pressure from our partners to link a solution to our budget problem with concessions by the United Kingdom on other matters. But we need not object to decisions being taken at the November European Council on any other issue which may be ripe for settlement.

5. As to tactics, the Chancellor proposes that we should embark on an early programme of bilateral discussions, involving both Ministers and officials, with our partners and the Commission. These discussions should be designed to disabuse them of the notion that our problem can be solved by anything short of a radical corrective mechanism and to create the right climate for the Finance Council discussions and the ensuing Commission proposals. In talking to the Commission, we should at the right time be ready to explore with them the four possible corrective mechanisms identified in Annex B to the Chancellor's paper.

HANDLING

6. You will wish to invite the Chancellor of the Exchequer to introduce his paper.

7. Thereafter you might find it convenient to focus the discussion first on the guiding principles set out in paragraph 3 of the paper and summarised in paragraph 4 above. The Foreign and Commonwealth Secretary, as the Chairman of OD(E), and the Lord President of the Council, may have general comments.

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8. The Committee should find little difficulty in agreeing that some form of corrective mechanism is the only acceptable answer to our problem. Minor changes to the existing Financial Mechanism would not, by themselves, be enough; reductions in CAP expenditure would be welcome but too slow; increases in the Community funds from which we gain a net benefit should not be rejected but cannot solve our problem, certainly within the present budget limit of 1 per cent VAT.

9. The proposed negotiating basis might provoke more discussion. Is the formula in the last two sentences of paragraph 3(c) a realistic objective? It implies a saving for the United Kingdom of about £1,000 million per annum across the exchanges, with a corresponding reduction in the current benefits received by our partners. But we must establish a strong opening position if we are to have any impact. The Committee's decision on Anglo-German offset costs will also be relevant to how hard we push our budget case. The Chancellor's paper deliberately focuses on what our opening position should be. It would be premature to decide now what might ultimately be acceptable to the Government and in any case unwise to put it in papers which are widely circulated.

10. On the alliance with the Italians, you agreed with Signor Andreotti at Strasbourg to keep in touch, but we must be careful that the Commission's proposals are not distorted unacceptably for us by the need to cater for different Italian interests.

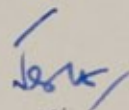
11. As to possible linkages, there is a clear risk that if our partners are eventually persuaded of the need to act on our budgetary problems they will want some compensating concessions to enable them to justify the outcome domestically as a balanced package. The Committee is nevertheless likely to agree with the Chancellor that we should resist any attempts at linkages. This need not preclude other decisions being taken at the November European Council which would help presentationally. These are matters which could be considered by OD(E).

12. On tactics, the Foreign and Commonwealth Secretary and the Lord President of the Council may have comments but you will not want to get into too much detail. That can be left to the Chancellor and the Foreign and Commonwealth Secretary or to OD(E).

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CONCLUSION

13. Subject to the discussion, you may be able to sum up that the recommendations in paragraph 3 of OD(79) 18 are approved and that the tactical follow-up should be left to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.



JOHN HUNT

9th July, 1979

CONVERGENCE

The European Council noted the report submitted to it by the Council (Economic and Financial Affairs) on the convergence of Member States' economic performances.

Following comments from a number of delegations, it asked the Commission to submit to the Council a reference paper describing the financial consequences of applying the budgetary system on the situation in each Member State, especially in 1979 and 1980. The study will have to take into account the economic, financial and social effects of each Member State's participation in the Community and the Community nature of the components contributing to the formation of own resources. For 1980, it will take account of the agricultural prices for the 1979/1980 marketing year.

The Commission will at the same time examine the conditions under which the corrective mechanism decided on in 1975 can play its part in 1980 and the extent to which it fulfils the objectives assigned to it.

The Commission will submit its study to the Council so as to enable the Member States to give their opinions and present their requests in concrete form. In the light of the debate and of any guidelines which may emerge from the Council the Commission will present proposals sufficiently early to enable decisions to be taken at the next meeting of the European Council.

To Energy, June 79
UK/Australia Nuclear Safeguards
Agreement.

P.A. G.M.
4/7

TRANSCRIPT OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER
AND MR. ROY JENKINS

PRIME MINISTER: I am sorry to have kept you waiting for a moment. We had another telephone call in.

MR. JENKINS: No, not at all.

PRIME MINISTER: First, I am in very great difficulty about the Safeguards Agreement with Australia. Malcolm Fraser spoke to me about it when I was over there. Doesn't understand why it isn't going through because we have in fact done everything possible to make it compatible with the Treaty and doesn't understand why we can't go ahead and is pretty bitter about it. I am going to have difficulty over here and am just wondering how we can get it through.

MR. JENKINS: Well, I would like to get it through very much and am very anxious to try and be helpful on this. The difficulty is that, although we seem to have met the objections raised last July, inevitably things have changed somewhat since this court judgement which we had in November last year, and had we not had these judgements in July, we would really find it almost impossible to approve it, but we think we could approve it without laying ourselves open which we might otherwise do to other Member States going through the same thing and if we try to stop them possibly be taken to court, or we might indeed be taken to court on approving your Agreement unless we can put a time limit in it. Now we wouldn't insist on the time limit being in the Agreement if there could be an exchange of letters making it provisional with the hope that you share that we can have a EURATOM/Australia Agreement in the meantime. We could then approve it and we must do something about it tomorrow and our intention tomorrow would be to say, Yes we will approve, subject to there being either in the Agreement or in the exchange of letters, a time limit, the exact extent which we could discuss.

PRIME MINISTER: Yes. Could the time limit be to the effect that after a period of X years, it will be reviewed because I think that unless it is in those terms, I really don't think the Australians will go ahead. Alternatively we could say that this Agreement

/will lapse

will lapse when an Agreement between Europe and Australia has been concluded.

MR. JENKINS: Yes, I don't think honestly that would be enough from the point of view of our legal position. As you understand it, we are bound as a Commission to follow ~~the~~ the rule of law in the Community and we would be in an impossible position if we were taken before the court for not observing the Treaty.

PRIME MINISTER. Yes. There is some doubt about it isn't there?

MR. JENKINS: ... observing the Treaty. So I think we would have to have a time limit which would be a time limit in figures rather than a time limit saying it would lapse when there was Euratom / Australia Agreement. But so far as that time limit is concerned, I mean there could be various possibilities. There could be a time limit which could, of course, be reviewed and in my view subject to, I very much hope there will be a Euratom Australia Agreement, and in ~~xxx~~ general effect you are holding that up, we are very very near to one, but we could either have a time limit which would be short, say, 18 months. Now the advantage of that...

PRIME MINISTER: We shan't get it in 18 months. Absolutely useless.

MR. JENKINS: I know it's not useful from the actual point of view of delivery of supplies. The advantage of 18 months, but I'm not saying it must be 18 months, but the advantage of 18 months from your point of view would be that it would be within the lifetime of the present Commission and I would give you a private, personal undertaking that I would regard myself as committed to get it renewed. If we had not got Euratom/Australia Agreement by that stage, or you could go for a longer one, say, three years, but you would then be in the lifetime of the next Commission.

of such an Agreement would probably take a reasonable view but, obviously I can be more committed about something within

PRIME MINISTER: I don't think the Australians would accept such a short period. The thing just wouldn't go ahead and I should then be in acute difficulty and either have to do something very drastic indeed or duly explain to my people why it is not going ahead because he is pretty bitter about it. The only thing that I could do is to have an exchange of letters undertaking to review the Agreement before the end of 1982. But if that doesn't go through it will put me in an acute anti-European difficulty and I don't want to be in it. Because here we are a Tokyo Communique, things might have changed since the judgement, here we are all signing a Tokyo Communique saying nuclear must go ahead.

MR. JENKINS: We are all in favour of that, I assure you.

PRIME MINISTER: And then we are, I think, slown up at the last moment.....

MR. JENKINS: Nuclear going ahead from the Community point of view isn't helped by tearing the Euratom Treaty to tatters.

PRIME MINISTER: Oh I think it would be as a matter of fact. But still.

ROY JENKINS: But still, you ^{will} appreciate that we have to accept.

PRIME MINISTER: But you will appreciate that I have a political problem.

ROY JENKINS: Yes I do. Yes.

PRIME MINISTER:.... and it will break not only here but in Australia and it just won't do.

ROY JENKINS: End of 1982

PRIME MINISTER: Yes. To be reviewed.

ROY JENKINS: The end of 82 is 3½ .

PRIME MINISTER: Well, 2½. End of 82.

ROY JENKINS: A review

PRIME MINISTER: Yes. That's all I can do because you don't just embark on this sort of investment on the basis of 18 months or on the basis of anything.

ROY JENKINS: Now I realise that 18 months in itself does not enable supplies to be delivered. Now as I say, the advantage of 18 months is that it would be within the lifetime of this Commission and I am as sure as I could be that if we did not have, ^{I mean} we are agreed that if there is Euratom/Australia Agreement, that supersedes it.

PRIME MINISTER: Well you can hardly review before the end of 1982 or conclude it if superseded by a Euratom/Australia Agreement.

ROY JENKINS: Yes, that we are agreed on but we would like it to be superseded but that in itself is not enough. But you could wear the end of 1982.

PRIME MINISTER: Reviewed. An exchange of letters between ourselves and Australia undertaking to review the Agreement before the end of 1982.

ROY JENKINS: Review before the end of 1982.

PRIME MINISTER. Yes.

ROY JENKINS: What I would say should be reconsidered for possible renewal. But I would like to stick between those two if I could.

PRIME MINISTER: Reconsidered for renewal.

ROY JENKINS: For possible renewal. Yes. I think there would honestly be no difficulty about renewal in practice. If there was not a Euratom/Australia Agreement, which I believe there will and should be by then. Should and will be. The other way round.

PRIME MINISTER: This Agreement should be reconsidered for renewal by the end of 1982 if a Euratom/Australia Agreement has not been concluded.

ROY JENKINS: Should be reconsidered for renewal. Should be reconsidered and would need renewal before the end of 1982. And would need renewal.

PRIME MINISTER: To be reconsidered and would need renewal before the end of 1982.

ROY JENKINS: Let me just. That is 3½ years.

PRIME MINISTER: If a Euratom/Australia Agreement had not by that time been concluded.

ROY JENKINS: Yes.

PRIME MINISTER: I'll go back and consult whether Australia would wear that and the Foreign Office.

ROY JENKINS: Well I hope

PRIME MINISTER: Somehow I want it through because I will be an acute European embarrassment.

ROY JENKINS: I am very keen that we, I mean, you know it can be extremely tiresome from both our points of view if get fouled up in this tomorrow. I think I could live with that if you could. But it's straining it a bit to be honest, as it is for you. And it is also straining it for me.

PRIME MINISTER: Yes, but they are being jolly difficult if I might say so. I mean my legal information that your advice is not quite the same as yours, but let's not get into that.

ROY JENKINS: That, alas, is often the case.

PRIME MINISTER: Yes.

ROY JENKINS: From different points of view. I mean our fear, to be honest, is that if we did not feel committed by discussions we had last July, if the British come up afresh with this after the November judgement, we couldn't have done it. So we are really leaning over to try and do it. But we did put objections to you which you have largely met. And therefore we feel to that extent committed to be as helpful as possible which in any event on practical grounds, I would like to be.

PRIME MINISTER: Can I just repeat that. We undertake to consider the Agreement for renewal before the end of 1982 if by such time a Euratom/Australia Agreement has not been concluded.

ROY JENKINS: To consider, to reconsider the Agreement before the end of 1982.

PRIME MINISTER: Just one moment, let me take it down. To reconsider the Agreement before the end of 1982.

ROY JENKINS: The Agreement would need to be reconsidered, would need to be reconsidered, I would like to have in, before the end of 1982. Should be reconsidered for renewal if no Euratom/Australia Agreement in the meantime.

PRIME MINISTER: This Agreement would need to be reconsidered before the end of 1982.

ROY JENKINS: And if no Euratom/Australia Agreement.

PRIME MINISTER: If no Euratom/Australia Agreement has been concluded in the meantime.

ROY JENKINS: This Agreement would need to be considered before the end of 1982 if no Euratom/Australia Agreement in the meantime.

PRIME MINISTER: This Agreement would need to be reconsidered before the end of 1982 if no Euratom/Australia Agreement had been concluded in the meantime.

ROY JENKINS: Yes.

PRIME MINISTER: Let me see what I can do with that.

ROY JENKINS: Well let me too consider, because we both have to consider.

PRIME MINISTER: Yes. I am just in the position of saying I don't care what we do so long as it is acceptable and is concluded. Because otherwise I am going to have a very nasty anti-European time.

ROY JENKINS: Yes, I'm going to have quite a lot of difficulty getting that through the Commission but I will try hard to get that through the Commission.

PRIME MINISTER: You tell them they are expert at turning friends into enemies.

ROY JENKINS: If we can both live with that. Well we do our best not to.

PRIME MINISTER: Yes.

ROY JENKINS: You have been a great friend if I may say so.

PRIME MINISTER: I was appalled at the way ^{in which} other people ratted on the thing. While you are on the telephone, can we get the budget thing through to the September meeting of Finance Ministers?

ROY JENKINS: As you know, we have two stages in this. We have the objective report and we have the proposals for remedy. We could certainly I think get the objective report by the September meeting.

PRIME MINISTER: And then their proposals but I fear that if it not until October, there won't be time to get proposals to be considered by other Governments in time for November in Dublin.

ROY JENKINS: Well I don't want to be too late with them. I don't, to be honest, want to be too early either with proposals because I don't want there to be too many months for people to take up hard positions, and the rats to eat at the stack of corn.

PRIME MINISTER: But if it doesn't....

ROY JENKINS: I think we were both agreed, we would both slightly have preferred not to have had the Council of Economic and Finance Ministers put in as the intermediate stage but we had to accept it and get what we did.

PRIME MINISTER: Yes.

ROY JENKINS: And I don't want it to be mulled over too long by too many other Councils before we get it to Dublin..

PRIME MINISTER: Yes, but you have to put the proposals to Dublin in time for conclusions with the November meeting. I am not quite sure what time the October Council is.

ROY JENKINS: The October Council is probably about the 20th of October.

PRIME MINISTER: It would'nt.....

ROY JENKINS: Actually it is the 15th.

PRIME MINISTER: After that you have to formulate proposals in time for decisions to be taken at Dublin.

ROY JENKINS: I myself would like to see us put forward the objective statement of the position for the September one, if I can.

PRIME MINISTER: Yes, yes.

ROY JENKINS: But I do not want to put forward proposals too early nor too late.

PRIME MINISTER: Yes, that I accept.

ROY JENKINS: In order that people can start tearing them apart.

PRIME MINISTER: What I accept is the reference paper that they need.

ROY JENKINS: Well I will try to do the reference paper in time for the September meeting, but I'm not too keen to do the proposals too early from the point of view of our joint interests.

PRIME MINISTER: Yes.

ROY JENKINS: It is bound to be a matter of judgement and I could be wrong, but that is for the moment my judgement.

PRIME MINISTER: All right.

ROY JENKINS: But I am very happy to keep in touch with it and try to do it

PRIME MINISTER: All right. I will go back to the Foreign Office and talk about the other thing. Would you let me know when you are at home for a weekend, and then I thought you might try to come along to Chequers and have some lunch.

ROY JENKINS: I'd love to do that. I was talking to Woodlows..... I would like to do that very much indeed. When would be a possibility from your point of view.

PRIME MINISTER: Well, I'm there this Sunday. I shall be there, one moment. Can I just let you have a list of weekends I shall be there.

ROY JENKINS: I am actually in England a good deal in July and would love to come.

PRIME MINISTER: I haven't got this week's diary here. I know I'm down there this Sunday.

ROY JENKINS: Could our offices get in touch tomorrow to see what the possibilities are?

PRIME MINISTER: Yes. One moment. Let me look at my diary. I shall certainly be there Saturday and Sunday the 21st and 22nd July.

ROY JENKINS: That day is not possible for me, alas because I'm at the University of Wales to get a degree.

PRIME MINISTER: Yes. I think our offices will get in touch.

ROY JENKINS: Shall we exchange two live dates. I am very grateful and would love to work out one. I'm sure we can.

PRIME MINISTER: Yes I'm sure we can.

ROY JENKINS: Well, I have about three possibilities but it will be easiest if our offices do it tomorrow morning.

PRIME MINISTER: All right. I'll get the office to ring yours, early tomorrow morning.

ROY JENKINS: For a Saturday or a Sunday.

PRIME MINISTER: Yes.

ROY JENKINS: Good. How was your Australian visit? You are not too tired, I hope?

PRIME MINISTER: It was all right. In Canberra two days. I had lots of long talks with Malcolm Fraser and the entire Cabinet arranged a major Cabinet the whole of Sunday afternoon. And this thing came up and also which you can imagine is a very difficult one for me. And their general relations with the Community etc. What is your

ROY JENKINS: Somewhat better now. There is no doubt at all that that they have been put on to a slightly better basis and certainly people like Peacock say this very strongly. I think ^{Malcolm} Fraser says this too, but certainly Peacock does. And Peacock is very anxious to work with us.

PRIME MINISTER: Yes. It would be helpful if everything goes through. As you know, Malcolm Fraser isn't the cosiest person.

ROY JENKINS: I know.

PRIME MINISTER: So you have to work quite hard.

ROY JENKINS: Yes, I agree.

PRIME MINISTER: And he hasn't the most open and flexible mind either.

ROY JENKINS: Peacock is much more flexible.

PRIME MINISTER: Yes.

ROY JENKINS: And Fraser tends rather to, well he sort of, he shouts a little if but it doesn't necessarily get him anywhere.

PRIME MINISTER: No it doesn't. But it makes life difficult for me.

ROY JENKINS: Perhaps on this UK/Euratom/Australia thing, how shall we leave it? I would try and get that through the Commission tomorrow. We can't go further than that.

PRIME MINISTER: If there is any difficulty, I will get my office to phone to ring yours first thing tomorrow morning.

ROY JENKINS: Okay, because we will have to take this during the day tomorrow.

PRIME MINISTER: Yes. What time is first thing Brussels time? Is it 9.30 or 10.00?

ROY JENKINS: We start at the Commission at 10 o'clock Brussels' time, which is 9 o'clock London time.

PRIME MINISTER: Nine o'clock London time.

ROY JENKINS: I'm not sure we need take it at the beginning of the morning, although I would like to take it in the morning if

we can. We meet in the morning and in the afternoon.

PRIME MINISTER: Nine o'clock London time. All right.

ROY JENKINS: Nine o'clock London time we start. But that is not an absolute deadline though it would be helpful to know.....

PRIME MINISTER: Yes. All right.

ROY JENKINS: Thank you.

PRIME MINISTER. Thank you. Goodbye.

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Ref. A09908

PRIME MINISTER

Cabinet:Community Affairs

Since the Cabinet last met on 20th June the main Community events have been: the Common Agricultural Policy (CAP) price settlement agreed at the end of the 18th June Agriculture Council; the 21st-22nd June European Council; the 25th June Fisheries Council; and the 25th June final negotiating Conference with the African, Caribbean, Pacific (ACP) countries on the renewal of the Lome Convention. (The Community aspects of the Tokyo Summit, notably the national oil import limits to be specified by each Community member state, will presumably be discussed under the preceding agenda item.)

2. The Minister of Agriculture might be invited to report on the outcome of the 18th June Agriculture Council, which - as he acknowledged in his letter of ~~June of~~ 25th June - departed in some respects from the line endorsed by Cabinet on 14th June, notably in providing for a price increase in sugar.

3. No Minister has so far challenged the justification for accepting the Luxembourg package set out in Mr. Walker's letter of 25th June. Nevertheless I suggest that you ought to take the opportunity of this Cabinet to put on record one point, thought without overtly seeming to criticise Mr. Walker. This is that Ministers negotiating in the Community must stay within the limits of what has been collectively agreed or refer back to the Chairman of the relevant Committee or to you before departing from these limits. Everyone knows that some time some departure may be necessary in order to secure a satisfactory settlement. But a Minister ought not to do this on his own initiative and without clearing his lines.

4. The Foreign and Commonwealth Secretary might report on the outcome of the final EEC/ACP negotiating Conference on 25th-26th June on the new Lome Convention. So far as the Community is concerned the Conference marks the end of the negotiations. The ACP countries will however meet in July before deciding finally on the signature of the new Convention. Except for human rights, on which no agreement was reached and the Community will therefore make a unilateral pronouncement later, the United Kingdom's interests were satisfactorily safeguarded.

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5. Unless you wish to enlarge on your statement to the House on 26th June there should be no need for discussion of the European Council. The Defence and Overseas Policy Committee (OD) will take a paper from the Chancellor of the Exchequer on our tactics on the Community budget on 10th July.

MIV

PP

JOHN HUNT

4th July, 1979

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United States Government
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- 4 JUL 1979

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10 DOWNING STREET

From the Private Secretary

4 July 1979

Dear Paul,

EEC BUDGET

When the Prime Minister telephoned the President of the Commission on 3 July about another matter (the UK/Australian Safeguards Agreement) she asked Mr. Jenkins whether the Commission would be able to put its reference paper on the Community Budget to the September meeting of the Finance Council.

Mr. Jenkins told the Prime Minister that the Commission would be tackling this problem in two stages: it first had to prepare its objective report and then make proposals for remedies. The Prime Minister said that if the Commission's proposals were not ready until October, there would not be time for them to be considered by other governments before the November meeting of the European Council in Dublin. Mr. Jenkins agreed that the proposals should not be put forward too late but commented that he was equally anxious that they should not be put forward too early since this would give too much time for member governments to take up hard positions and "get at" the Commission's suggested solutions. The Prime Minister said that she saw the force of this, but thought it important that the reference paper, at least, should be put to the Finance Council in September. Mr. Jenkins said that he would do his best to get the reference paper to Finance Ministers at their September meeting and thought that this should be possible: the proposals could follow at the later meeting of the Finance Council.

I am sending copies of this letter to Martin Hall (Treasury) and Martin Vile (Cabinet Office).

Yours ever,
Margaret Thatcher.

Paul Lever, Esq.,
Foreign and Commonwealth Office.

20

European Policy



Foreign and Commonwealth Office

London SW1A 2AH

20 June 1979

B L Crowe Esq
UKREP
BRUSSELS

Dear Brian,

P. C. Petrie
22/6

HEADS OF MISSION CONFERENCE: 8 JUNE 1979

1. The Heads of Mission from Community and candidate posts met in London on 8 June. The Secretary of State was in the chair. Discussion covered the broad objectives of the new Government; tactics for handling their negotiating objectives within the Community; and the response to be expected from others on the major questions in the run-up to the European Council.

/ 2. I attach the record of the meeting.

Yours ever
Peter

P C Petrie
European Integration Department
(Internal)

copy to:

Heads of Chancery

- BONN
- PARIS
- BRUSSELS
- THE HAGUE
- COPENHAGEN
- DUBLIN
- LUXEMBOURG
- ROME
- MADRID
- LISBON
- ATHENS

- Mr Franklin, Cabinet Office
- Mr Elliott, Cabinet Office
- Mr Cartledge, 10 Downing Street
- Mr Bullard
- Mr Butler
- Mr Fretwell
- Mr Fergusson
- Heads of
 - EID(E)
 - WED
 - FRD
 - Planning Staff
 - News Department
 - MAED
 - RID

CONFERENCE OF HEADS OF MISSION IN COMMUNITY AND
CANDIDATE COUNTRIES, 8 JUNE 1979

1. Opening the meeting, the Secretary of State said he hoped it was now quite clear that Europe was the Government's topmost priority in foreign policy. The first objective had been to change the atmosphere and demonstrate a willingness to co-operate in making a success of the Community. The Schmidt and Giscard bilaterals and the Cahors meeting had all been useful. The next step was to put flesh on the skeleton, which would be harder. Ministers had now decided to remove some of the obstacles: for example, by lifting reserves on the Bonn and Barcelona Conventions and the directive on aircraft noise. The major outstanding problems were the disproportionate net UK contributions to the Community budget; the CAP; and the CFP.
2. Lord Carrington said that in preparing our strategy over the next few months it would be useful to hear views on a number of questions. For example, should we go for a global settlement? Is our presentation of the nature of the UK budget problem convincing? How useful would joining EMS be presentationally? Were other Governments ready to reach a compromise on fisheries? How should we approach the European Council on 21 June? If others were interested in energy, would arrangements such as long-term commercial contracts (at market prices) for North Sea oil make them more helpful over our main Community problems?

Atmosphere and strategy

3. Mr Franklin gave a brief account of the current state of official preparations for the Strasbourg European Council.
4. All Ambassadors agreed that the negotiating atmosphere had been improved by the Government's post-election statements. Most Member States were now looking for the first substantive signs that HMG's new approach would be put into practice in Community policies. Sir D Maitland and Sir O Wright argued that the next step was to remove the "minor irritants" as soon as possible. The Secretary of State questioned whether to do so might not leave us without guarantees that others would meet our more important objectives. Sir D Maitland considered that removing reserves on e.g. Bonn/Barcelona Conventions did no more than complete the establishment of this Government's European credentials. Most of these minor irritants were of a kind that others considered ought not to have been allowed to arise anyway. They had no value as negotiating levers on major questions such as the budget. Mr Sutherland and other Ambassadors suggested that extensive publicity should continue to be given to the Government's new approach. The European Parliament might be one forum. Mr Hurd suggested that the low turnout in the UK direct elections would reduce the authority of UK MEPs. Others thought that once elected all MEPs would be equal, whatever their proportion of the electorate. Mr Haydon said the Irish still considered us reluctant Europeans (in contrast to themselves). Their 55% turnout in the European election would enable them to continue this belief. He and Mr Wright considered that HMG should work on domestic public opinion as well, and be seen to do so in the Community.

5. As regards a global approach in negotiation, Mr Hurd considered that we should seek out allies and friends on individual issues as they arose. If this failed we would be forced back to presenting the Community with a "British problem" which became a sort of re-negotiation. Several Ambassadors agreed that there was a danger of appearing to seek a re-negotiation, against which Chancellor Schmidt had explicitly warned the Prime Minister. Sir M Palliser pointed out that the first re-negotiation had been seen by all as essentially a political manoeuvre, and this further complicated the task of convincing the Community that there was a real problem, e.g. on budget contributions. Mr Franklin pointed out that some of our Community problems might disappear as a result of entirely separate domestic policies pursued by HMG; e.g. if there were a reduction in state aids to industry. The Danes would particularly welcome this.

Budget and Net Contributions

6. Mr Butler described the size and nature of the net UK budgetary contributions. Ministers had not set a specific target, such as that our net contributions should be zero. But major correction needed to be made to a deficit that would be up to £1200 million by 1980. This could not be done simply by resisting any increase in own resources; nor by increases in Community expenditure which benefited the UK, such as RDF and Social Fund. A variety of complementary solutions on both the revenue and expenditure sides of the Budget were necessary. Some improvement, or perhaps revision, of the financial mechanism might produce up to £400 million p.a. without changing the fundamental principles of the existing mechanism; the agricultural budget could be reduced, perhaps through countries with structural surpluses meeting the costs of disposing of them. We were considering how the Prime Minister should handle this at the European Council in Strasbourg. It was planned that she would make a general, relatively unspecific, speech pointing to the problem; to our gross contribution; to the low level of our receipts; referring to the obligation to "reduce regional disparities" in the preamble to the Treaty of Rome; indicating that this was a Community not a national problem (e.g. Italy); and asking that the European Council instruct the Commission to prepare urgently specific proposals for rectifying the imbalance in net contributions.

7. Sir A Campbell considered that keeping close to the Italians on this was essential and doing so would give credibility to our argument that this was a Community problem. Lord Moran agreed that we should present this as a Community problem, i.e. that, in a common-sense Europe, it should be in the Community's interest to resolve it. Sir R Hibbert said the French would wish such an instruction to the Commission to be a great deal less precise than we were seeking. Mr Hervey suggested that the Dutch might ask HMG themselves to formulate precise proposals. Mr Butler replied that whether or not the Dutch advice was well-intentioned, it would be tactically wiser for us to insist that the Commission should take the lead, though we would need to feed them ideas. The Benelux countries would find it easier to agree solutions if the Commission had proposed them. Sir D Maitland warned against pitching our expectations too high but considered that in the long run we would get a very significant improvement in our net contributions. We would need persistent hammering to arrive there. There was an

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internal Commission struggle between Ortoli and Jenkins on what response to make to the UK budget problem. The Lord Privy Seal reported that his recent trip to Brussels-The Hague had revealed little disposition by officials to accept our budget presentation, although there were some indications of a recognition of the problem at political level.

CAP

8. Some indications were reported that others, including the French, were worried at the scale of CAP expenditure and were coming to share our views. For the Irish the CAP was sacrosanct, as it was for the Benelux. Dame Anne Warburton drew attention to recent indications that the Danes were becoming critical of the German position. Sir O Wright expressed interest in a possible change in French thinking on the CAP. The German defence was based on the political requirement of the Coalition (i.e. Ertl's strong position in the junior coalition partner, the FDP, and also as champion of the interests of the small southern farmers;) and on the alliance with France, where the two countries had together resisted changes in the structure of the CAP as it now operated; if the French position changed the Germans might be forced to rethink.

CFP

9. Sir D Maitland did not think there was much room for improvement on the package deal beginning to emerge. Dame Anne Warburton said the Danes were still much concerned by absence of a CFP covering internal waters, but would welcome any lifting of UK reserves on the external regime.

EMS

10. A number of Ambassadors reported that it was clear there would be very widespread welcome in the Community for a UK decision to join EMS. The Italians had participated in the EMS exchange rate mechanism for almost entirely political reasons, and were much disappointed at our absence. Chancellor Schmidt had a particular personal commitment to the EMS and would be much gratified if we joined. The Irish were politically proud to have joined without the UK, but it would be very convenient if we did join. Benelux and Denmark would regard UK participation in EMS as a major step demonstrating our Community credentials. Sir P Wakefield described the Belgians as very closely wedded to EMS. They would seek to remain in it with the Germans, even if the French withdrew. Sir D Maitland pointed out that it might be easier to board a bus that was slowing down. Sir M Palliser agreed but considered it important not to assume that because EMS was going through a difficult period it would eventually break down. Exchange rate adjustments might be necessary, but they had been foreseen in advance. Such a moment would be a good one for us to join.

/NON COMMUNITY ISSUES

NON-COMMUNITY ISSUES

11. Sir R Hibbert said that the deterioration in relations between UK and French Ministers could be dated to the visit which Dr Owen and Mr Callaghan paid to Washington after President Carter's inauguration. He considered that France and perhaps others would particularly value a change of UK orientation towards Europe, not just on specifically Community issues, but also on wider political matters. HMG's close identification with Washington over the last two years had not been well received. For example on MBFR we could move closer to the Germans. Small points like lifting reserves on the Bonn and Barcelona conventions or offering long-term commercial contracts for oil supply, would not take us far. They were the small change of Community business, part of a normal working relationship. We should make a studied attempt to pursue three elements: ensuring our foreign policy objectives were harmonious with France and FRG on key issues; adopting a less overtly pro-US line; taking a more forthcoming attitude in political co-operation. He recognised that the French did not make it easy for us.

Mr Bullard commented that improvements in the functioning and role of the political co-operation machinery might result either from the Three Wise Men study or from internal PoCo proposals. If the worst Presidency in the future were like the best in the past, this would be a significant improvement. However on key issues (e.g. Middle East) there would always be difficulties. He doubted there was scope for a trade-off between our position in PoCo and our other Community objectives: in most Member States, below the level of Foreign Minister, there was little internal co-ordination between political directors and those involved in Community business. This reduced opportunities for realistic trade-offs. But occasional well-timed bilateral initiatives on e.g. energy or high technology or defence procurement, might help with one or two particular partners.

12. Sir A Acland and others suggested that as part of a package which might emerge in the autumn on our main requirements, we should consider what incentives we could offer on energy. For example some Member States might welcome arrangements whereby UK firms entered into long-term supply contracts with them. Mr Butler warned against arousing expectations too high given that even between 1982 and 1986 we would only have a surplus on domestic requirements of about 15% (although more for export) and the total oil exportable could only meet about 10% of Community needs, always assuming the Government could control to whom it was sold. Sir D Maitland thought nevertheless that this was an important psychological point where we stood to gain in the Community. Others would not be asking for too much. Energy would be discussed at the European Council. Sir P Wakefield said the Belgians would welcome developments on energy; both economic (filling the energy gap and developing own resources) and political (co-operation on Middle Eastern matters etc). Sir O Wright suggested the Germans would welcome agreement by the UK to return plutonium after re-processing, or our participation in the fast breeder reactor programme. There would be balance of payments advantage in the former.

/CONCLUSION

CONCLUSION

13. The Secretary of State reminded Ambassadors that there would be domestic constraints to be weighed against the constraints of the EEC negotiations themselves. There would be major public expenditure cuts at home and Ministers faced with losing cherished projects would look very hard at the drain on the national budget which membership of the Community would provide over the foreseeable future.

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PRIME MINISTER

Community Affairs

You might first invite the Foreign and Commonwealth Secretary to report on Monday's meeting of Foreign Ministers at which agreement was reached on a Middle East statement and support for a United Nations Conference on South East Asian refugees. He came under pressure to modify the United Kingdom stand on aid under the new Lome Convention.

2. The Secretary of State for Energy might report on the 18th June Energy Council, which concentrated on the Community oil situation in preparation for the European Council and the Tokyo Summit. French proposals for restrictions on high-priced imports attracted little support, and the United Kingdom and Germany insisted that a proposed price monitoring system should not be adopted unless it was implemented on a world-wide basis.

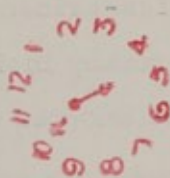
3. Against this background - which you will already have discussed at your briefing meeting - you may wish to outline to the Cabinet the approach you intend to take to the 21st-22nd June European Council. The two agenda items of chief concern to the United Kingdom will be energy and convergence. On the former our aim will be to ensure that the Community takes effective action on demand restraint and makes a constructive contribution to the energy discussions at the Tokyo Summit; on the latter our objective is to get agreement to a remit from the European Council to the Commission to propose remedies for our inequitable net budget contribution by the end of September, so that decisions can be taken at the November European Council. Your talks with Signor Andreotti on 15th June showed that he will give us support but Italian and United Kingdom interests diverge when it comes to remedies.

4. The 18th June Agriculture Council, at which the price fixing and green pound devaluation questions discussed by the Cabinet last week will be tackled, is still in progress. The 19th June Environment Council should not call for discussion.

(John Hunt)

19th June 1979

19 JUN 1979



CONFIDENTIAL

Original: Italy June 79

Extract from:

PM/Andreotti talks - 2 -

15. June 79

The Prime Minister asked Signor Andreotti about the percentage of trade unionists in the Italian workforce. Signor Andreotti replied that he would like to make two points on the trade unions. The first was that during the past three years the trade unions had worked quite well with the government during the country's most difficult moments, for example during the negotiations with the IMF and at the time of heavy speculation against the Lira. It was also true that the number of working hours lost through strike action had fallen by two-thirds during the same period, largely because of cooperation on the part of the unions. Signor Andreotti said that this was partly due to the fact that the government had been in a minority in Parliament, and had depended on the Parliamentary support of the Socialists and the Communists. It was noticeable that since December, when the Socialists and Communists had withdrawn from the government, the level of strike action had increased (although this could be attributed in part, also, to the beginning of the period of wage negotiations). Secondly, trade union membership had fallen significantly, mainly because many workers were unwilling to pay their contributions.

Community Budget and the CAP

The Prime Minister told Signor Andreotti that she had seen reports of his press interview on the previous day, and had been encouraged by the fact that he was in agreement with so much of what the British Government would wish to say at Strasbourg. She wished Signor Andreotti to know that there was a great difference between the present Government's approach to Europe and that of the last Government. The present Government believed positively in the European ideal: the UK would not be able to go ahead except as a member of Europe. Britain's membership of the EEC was the best solution for this country, and the best for Europe as well.

/The Prime Minister

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The Prime Minister said that she and her Ministers were wholly devoted to the cause of Europe, and for that reason would do everything possible to make the European ideal work and to cooperate to the greatest possible extent on all issues. This would not, however, prevent the Government from fighting their corner on matters which gave rise to problems for the UK, such as the Community Budget, Common Agricultural Policy and Fisheries. The problem lay in how to make progress on these issues without seeming to be anti-European. The Prime Minister said that she wished Signor Andreotti to know that the sooner progress could be made on these issues, the sooner the Government could convert the British people to the European ideal. The present budgetary arrangements were unjust; they had to be made just and reasonable. The Government did not, however, wish this issue to dominate the discussions at Strasbourg; what they wanted was progress so that the Community could move on to talk about other matters.

Signor Andreotti said that his total experience of five years as Prime Minister had taught him that it was possible to raise problems at European Councils but not to achieve solutions of them without slow and gradual preparation. The aim at Strasbourg, therefore, should be to have the problems set out clearly, and agreement reached on the procedure for solving them, a procedure which could perhaps involve the Commission. The Prime Minister told Signor Andreotti that when the President of the Commission had called on her three weeks ago, she had raised the problem of the Community Budget with him, and she now had from the Commission an agreed statement on the effect of the budgetary arrangements on each member, according to each of the possible ways of attributing the MCAs, and also showing what the position would be in 1980 when Article 131 would no longer apply. The facts, therefore, should not be in dispute. The Prime Minister said that she was averse to arguing with her colleagues about the facts when these were readily ascertainable.

/Mr. Jenkins

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Mr. Jenkins had suggested to her that when she met President Giscard, as President of the Council, she could obtain his agreement to putting the problem of the Budget on the Agenda for Strasbourg, on the basis of securing the Council's agreement on the facts and giving firm instructions to the Commission to come forward with possible solutions to the problem at the Council's next meeting. During her talk with President Giscard in Paris, therefore, she had adopted this approach, and had recognised, in the light of the discussion, that the UK's task would not be an easy one. The UK had subsequently experienced some difficulty in arranging for the Budget question to be given a reasonably high place on the Strasbourg Agenda. The Prime Minister said that she was nevertheless determined to achieve the result that the Commission would be instructed to produce solutions. She did not underestimate the difficulties, because she was aware that not all members of the Community accepted that the present arrangements were unjust. The fact was, however, that only an unjust system could produce such unjust results, and the system must therefore be changed. Both Italy and the UK were paying more than their fair share in their net contribution to the Budget. Fairness between the partners was essential in any enterprise which was to have a thriving future. Signor Andreotti said that he believed that the first essential was to avoid any worsening of the present position. In particular, a rise in agricultural prices would increase expenditure since agriculture would take up an even greater share of the Community's Budget. The European Council had sometimes spent days at a time debating whether the Regional Fund should be increased, whereas expenditure on agricultural surpluses amounting to five or six times more in cost were passed through without any difficulty. There were two further difficulties concerning surpluses. The first was that the Community usually ended up by selling them at artificially low prices to, for example, the Soviet Union after first incurring all the expense of supporting them;

/the surpluses

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the surpluses should be consumed in the Community itself, instead of which the members of the Community were paying twice over. The second difficulty was that under the present system instructions were given from time to time to destroy fruit and vegetables as a result of EEC regulations. This caused a serious psychological problem as far as poor people in Italy were concerned, particularly since these products were of so much greater concern to Italians. Italy wished to change the rules which produced this result.

Signor Andreotti went on to say that in his view the first essential was to find a way of avoiding agricultural surpluses, thereby reducing the cost of the CAP and the burden on the Community Budget. He had some confidence in the quasi-liberal economic thinking of Chancellor Schmidt in the FRG; but he knew that Denmark, Ireland, and probably the Netherlands, all of whom benefited from the present arrangements, would cause difficulties for Italy and the UK.

Signor Andreotti said that the problem of Mediterranean products was naturally of particular concern to Italy. In order to help countries like Cyprus, the Community frequently gave Mediterranean products less protection than others. He understood the reasons for this, but it was always at Italy's expense; in the Tokyo round, for example, there had been a great deal of discussion of reductions in tariffs on fruit and tomatoes, but no mention of similar reductions for meat and dairy produce. Italy had been able to achieve some minor changes, but in general she had a raw deal on this issue. Signor Andreotti said that Mediterranean agriculture was far more important to Italy than the discrepancy between what they contributed to the Budget and what they got back in return; for the UK, however, the opposite was true. But the situation for the two countries was in reality two sides of the same coin and of the problem of securing

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/greater justice

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greater justice as between those who were doing well out of the system and those who were not. Signor Andreotti said that if the UK and Italy were to have a common platform, Italy was obliged to seek the UK's support on the problem of Mediterranean products.

The Prime Minister said that on the question of surpluses, President Giscard had suggested - and she was not sure to what extent this had already been discussed in the Community - that surpluses should be financed by the countries creating them and not under the CAP. Lord Carrington pointed out that President Giscard was in fact referring to future surpluses. He went on to say that, so far as Mediterranean produce was concerned, the balance of power in the Community could well shift when Spain and Portugal join Greece in the enlarged EEC.

Signor Andreotti acknowledged that if each member country had to accept responsibility for its own surplus, there would be no problem. Given the mechanism under which the CAP operated at present, however, this simply did not happen, because Community intervention to bridge the gap between prices realised and the fixed price was automatic. To achieve the result President Giscard had in mind, therefore, the rules for the CAP would have to be changed. The present system stimulated the increased production of, for example, dairy products in the FRG by the payments which it provided to German farmers. Production plans were needed, although there would have to be a degree of elasticity in them to take account of years of bad weather and other factors: but the objective should be to avoid stimulating the production of surpluses which created an increasing burden on the Community Budget.

Reverting to the question of Mediterranean products, Signor Andreotti said that the EEC had agreements with the

/countries

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countries of North Africa and with Israel which had adverse consequences for Italy. The Community absorbed only 7 per cent of Italy's production of citrus fruits; the remainder was consumed in Italy itself or exported elsewhere, which was difficult. By contrast, 80 per cent of Italy's consumption of meat and dairy produce was imported from within the EEC. This imbalance had to be corrected. Signor Andreotti recognised that, with the accession of Spain in prospect, years of preparation would be needed to secure the necessary adjustments. There was no need for Italy to suffer damage as a result of the enlargement of the Community which, indeed, Italy supported on political grounds.

The Prime Minister asked Signor Andreotti how long he had been seeking readjustments for Mediterranean products; it was clearly unlikely that results could be achieved on this between the Strasbourg and Dublin Meetings of the European Council. Signor Andreotti replied that Italy had begun the battle several years ago. Some results had been achieved, for example in winning from the Community a contribution towards the conversion of citrus fruits into fruit juice, which could be exported over a longer period and at a higher profit. The EEC had also contributed to agricultural production in Southern Italy - the so-called Mediterranean package. These were, however, modest achievements and they had taken two years to secure. Signor Andreotti said that he thought that Italy and the UK could work together and thereby achieve results. The problem, however, lay in convincing the other members that something had to be done. The other members had to realise that sacrifices would be necessary. At the same time, it was necessary to avoid creating a crisis in the Community. A crisis could come about since on questions of this kind, involving economic interests, /^{members} were inclined to adopt rigid attitudes; in the Netherlands, for example, attitudes towards the CAP remained constant as between Socialist and Conservative governments. A long and difficult negotiation

/ would be

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would be needed, but, Signor Andreotti repeated, results could be secured.

The Prime Minister said that the UK would need results very quickly, since domestic political problems could otherwise arise. In 1980, the UK's net contribution to the Budget would increase enormously: the British Government could not afford to wait until the 1 per cent maximum of VAT was reached. The Government's opponents had concentrated so much on the Budget as the test of whether EEC membership was beneficial to the UK that it would be impossible to tolerate the status quo for a further two years or so. The Government had to solve two problems: the Budget itself and the CAP, which was to a large extent responsible for the Budget's size. Unless movement could be secured very soon, the Government would be in grievous political and financial difficulty. Lord Carrington said that the present situation could upset the Government's whole economic strategy. The UK could not hope to become a constructive member of the EEC for so long as her economy remained weak. It was difficult to achieve economic recovery while the enormous burden of the UK's net budgetary contribution remained.

Signor Andreotti said that the simple solution might be to establish the principle that only those countries with GNPs lower than the EEC average would qualify for a net repayment from the Budget. Psychologically, however, it might be easier to arrange a system whereby net repayments, or a proportion of them, were not given back directly to the national budgets of below-average GNP countries but to the Regional Fund or to the financing of large-scale projects in the country concerned, thus achieving a saving for the national budget. A solution on these lines might be more readily accepted by the EEC members. Signor Andreotti said that he did not by any means exclude the more direct arrangement but thought that something on these lines would be more

/ acceptable.

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acceptable. The Prime Minister commented that although the result might be the same in terms of budgetary figures, the destination of the repayments would be different: the total repayments would not necessarily come back to any particular poorer country. Signor Andreotti agreed that it would be simpler to establish a system of progressive budgetary contributions, analagous to national income tax; but because of the EEC mentality, it would be more difficult to win acceptance for such a novelty over a short period.

The Prime Minister said that a system such as Signor Andreotti had proposed would create some difficulties for the UK, since the degree of the UK's over-payment to the Budget was about to become so great that a solution on these lines could not cope with it. It was also essential that a government should have some direct control over the net refund. The British Government, for example, would wish to use any repayment in order to stimulate the UK economy, rather than acquiescing in the use of the money to prop up dying industries in Europe. Lord Carrington said that the current scale of the budgetary imbalance was such that, although he entirely accepted Signor Andreotti's view that the problem of the CAP had to be resolved by an adjustment in expenditure, the budgetary problem demanded a more radical solution. The difficulty was that, if the UK were to pay less, others - for example, the FRG - would have to pay significantly more.

The Prime Minister told Signor Andreotti that the problem was to secure some movement. She was less patient than he was and did not wish to discuss the problem three times a year without achieving any action. Action was needed at the next European Council: the problem was, how to secure it? Signor Andreotti remarked that the novelty of the Prime Minister's presence in the European Council might give a jolt to the Council's methodology, or what he would call "European Conservatism". It was important that there should be adequate

/preparation

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preparation and that the European Commission should be instructed in such a way as to pave the way for decisions at the following meeting of the Council. It was also necessary to work round the flanks, in other words to engage in systematic bilateral discussion. European Council meetings were not always the best occasions for actual decisions.

EMS

Signor Andreotti recalled that the Italian Government had decided in December to join the EMS and had nearly been brought down as a result. His Government had, nevertheless, thought it right to join in order to demonstrate its European will and also because membership of the system had obliged the Government to adopt more rigid internal and monetary policies. The results so far had been favourable. Signor Andreotti asked what the British Government's attitude now was towards the EMS. The Prime Minister said that the Government was reviewing the question of the UK's relationship with the EMS and would be prepared to announce the results of their preliminary review before September. The Government would probably wish to allocate some of the UK's reserves to the EMS. At present, however, sterling was at a level well above the EMS ceiling, partly because North Sea oil was keeping the exchange rate above what would be justified by the UK's economic performance, and also because of the recent increase in the MLR to 14 per cent. The deposit of some UK reserves in the EMS would, however, serve as a declaration of faith in the UK's intention to join the system. The Prime Minister asked Signor Andreotti whether membership of the EMS had obliged the Italian Government to adopt tougher policies on money supply and inflation than they would otherwise have done. Signor Andreotti said that his Government had already planned an austerity programme before joining: but membership of the EMS made it easier to put this programme into effect since everybody knew that such measures had to be taken as a result of Italy's participation in the scheme.

/ The Prime Minister

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Prime Minister has vis.

*You may like to see this
further minute from the
Chancellor, and
that below from
Mr. Walker,
before your talks
with Signor
Andreotti.*

14 June, 1979

*P.A.
18/6*

*SW
14/6*

PRIME MINISTER

You will have seen Peter Carrington's letter to me of June 12th, enclosing the text of a formulation on this subject for the European Council.

2. I understand that this text was approved by you subject to my comments. I have agreed that, since time is so short before Sr. Andreotti's visit, the text should be put to the Italians for their reactions as it stands, though with the caveat that it might still be amended.

3. Indeed, I think that the text goes a long way towards meeting the points raised in my letter of 8th June. It contains a number of pointers which, if adopted by the Council, could be very useful in the difficult task of follow-up: notably, recognition by the Council that the Budget is creating difficulties for the UK and Italy; the notions that the Budget should be equitable and should not continue to hinder the economic performance of member states with below-average G.D.P per head; and a clear invitation to the Commission to propose solutions in good time for decisions at the next European Council in Dublin. ||

4. However, I still have some doubts, both on substance and on tactics, which are not entirely resolved by the arguments in Peter Carrington's reply to me. My doubts



are reinforced by President Jenkins' remarks at the Foreign Affairs Council on 12th June, reported in Luxembourg telegram no.97.

5. First on the substance of the text. Though I understand the tactical intention, I dislike the suggestion that "in time, our difficulties should become less serious" by reduction of agricultural surpluses: our case is surely that our Budgetary situation in the Community is serious, inequitable and worsening, and that CAP adjustments are only part of any satisfactory solution. Also, the present draft still seems too likely to encourage those who will try to buy us off on the expenditure side of the Budget, which may suit the Italians, but won't suit us. I am doubtful about the impact of the statement of the objective as "a fair balance of costs and benefits for all member states", and would prefer to see some specific reference to the inequity of our net contribution, and to the need to look for solutions on both sides of the Budget.

so am I

6. Second, on tactics. As I have said, it would be good to secure Finance Council recognition of our problem, in specific terms, and a clear directive to the Commission to produce proposals accordingly. However, if those terms prove too contentious, the reluctant or hostile elements at Strasbourg may be encouraged to blur them or water them down in discussion or drafting, and this may, despite the most determined effort, be difficult to prevent without the full support of the Presidency and a very clear directive to the official drafting groups. You may consider, therefore, that it would be wise to have available at Strasbourg a shorter fall-back text (not to be revealed beforehand to

/any other member

CONFIDENTIAL



any other member state) which would preserve the essential minimum of the original text. This essential minimum, I would judge, would be the three sentences annexed.

7. I shall have the opportunity to comment more fully on Peter Carrington's letter at OD(E) on Friday.

8. I am sending copies of this minute to Peter Carrington and other colleagues on OD(E) and to Sir John Hunt.

Mc HM

CONQUEROR

(G.H.)

[Approved by the Chancellor and
signed on his behalf]

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three member States with below-average GDP per head. Solutions are urgently required to ensure that the Community budget does not continue to hinder member states with below-average GDP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.

*This goes right down
for the inequality argument -*

14 JUN 1979





MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

14 June 1979

I have seen your letter of 8 June to Peter Carrington and his reply of 12 June.

I agree that, so far as possible, we should put all our emphasis on our net contribution to the budget and ask our partners to accept that those with below average GNP per head should not be net contributors. But the problem, as I see it, is that our partners are prone to argue that our net contribution is only one of the effects of Community membership and that we should set against it various benefits which we derive. When they do this, I suggest it would be sensible to point out that one clear and measurable result of membership is the extra we have to pay across the exchanges through buying food from other member states at CAP prices instead of world prices. We ought not to accept, by implication, that the non-budgetary effects of membership are all beneficial. Moreover, as you point out, this argument has to be used even to establish what our net contribution should be regarded as being, because of the line our partners take on the attribution of MCAs. In this connection, I suggest it would help if, rather than basing our case on 1978 figures, when our MCAs happened to be particularly high, we should get the Commission to produce forecasts for our net contribution in 1979 and 1980 based on the current level of our MCAs. These have been cut by the strengthening of sterling and will fall still more when I have secured the further devaluation of the green pound agreed in Cabinet this morning.

I very much agree that we should not seek a solution through a big increase in Community spending designed to give us extra receipts, even if this causes difficulties with the Italians. Apart from the points you make, we have to remember that the Italians will look to higher CAP expenditure to secure financial benefits for themselves. They have pursued this tactic in the past, and have had considerable success partly because they grow different products (so other member states know the expenditure will not have to be spread across the whole Community) and partly because their farm structure is

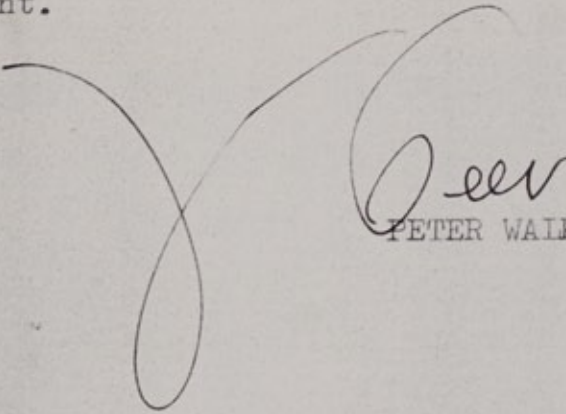
undeniably poor. But, ..

undeniably poor. But, apart from the fact that further spending on Italian agriculture is bound to be at our expense, all these arrangements will inevitably get extended to the new member states after enlargement, since they grow the same products, are poorer, and have even worse farm structure. The result would be very expensive for us.

I do not think we can rely on France and Germany to prevent further expenditure for the benefit of the Italians. They could well see it as a way of buying the Italians off. The resolutions at both the last two European Councils called for increased agricultural benefits for Italy. I suggest that it is important to brief the Prime Minister clearly against accepting any further such commitments; unless there is an equally specific commitment to something which will go an equivalent way to solving our budgetary problem.

I have also just seen the minute you sent to the Prime Minister today. I share your dislike of the implication that insofar as our problems arise from the CAP, they are on course for an eventual solution. The surpluses are, at present, getting worse, and even if prices for surplus products are frozen on a continuing basis, it will be a long time before production is affected and the financial benefits work through.

I am copying this letter to the Prime Minister, other members of OD(E) and to Sir John Hunt.



PETER WALKER

15



14 JUN 1978
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CONFIDENTIAL

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10 DOWNING STREET

From the Private Secretary

14 June, 1979.

Community Budget

The Prime Minister saw the Foreign and Commonwealth Secretary's minute (PM/79/51) of 8 June, covering a draft formulation on the Community Budget to which we might seek to secure the agreement of the European Council when it meets at Strasbourg on 21/22 June. As you know, the Prime Minister expressed some reservations about the wording of this draft, and you sent me a revised version taking account of the Prime Minister's comments. The Prime Minister has since seen the Chancellor of the Exchequer's minute of 8 June to Lord Carrington, and Lord Carrington's reply, in his minute (FCS/79/116) of 12 June, which covered the revised text of the draft formulation for the Council.

Having considered these papers further, the Prime Minister agrees (and understands that the Chancellor of the Exchequer is content) that the revised text should now be shown to the Italians, and that, subject to the outcome of her talks with Signor Andreotti tomorrow, the next move should be to try to sell it to the French Presidency. The Prime Minister also agrees that we should tell our Community partners early next week what our general line is to be and, if necessary, secure our own text.

I am sending copies of this letter to Martin Hall (HM Treasury) to the Private Secretaries to the other members of OD(E), and to Martin Vile (Cabinet Office).

B. G. CARTLEDGE

Paul Lever, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

SB

CONFIDENTIAL

PRIME MINISTER

Community Affairs

20-21.v
1
You may wish to inform the Cabinet of the main points which arose during your talks with President Giscard on 5th June (in particular the instructions which the European Council might give the Commission on the Budget and working closely with the French on energy issues).

2. The Foreign and Commonwealth Secretary might report on the visits he and the Lord Privy Seal have paid to Bonn, Brussels, The Hague and Luxembourg to prepare the ground with our partners for the discussion in the 21st-22nd June European Council of our Budget objectives.

3. Next week several Councils will take place: the 18th June Agriculture Council; the 18th June Finance Council (on which the Chancellor is putting a paper to OD(E) for consideration on 15th June); the Energy Council on 19th June, which will largely be devoted to the oil crisis in advance of the Tokyo Summit; and the 19th June Environment Council, at which, the United Kingdom reserve having been lifted, agreement should be reached on Community accession to the Bonn, Barcelona and Oslo agreements. Except for the Agriculture Council, which is the subject of a separate item on the Cabinet's agenda, none of these Councils should call for discussion,

M.H.
PP

John Hunt

13th June 1979

CONFIDENTIAL

Prime Minister

Agree with para. 5?

Yes
13/7/66

Ref. A09764

PRIME MINISTER

Community Budget

The Foreign Secretary and the Chancellor of the Exchequer have been offering advice on how we should achieve our objective on the Community Budget at the European Council next week. You approved the revised version of the text which was attached to Lord Carrington's minute of 8th June but you had not then seen the Chancellor's letter of 8th June to which Lord Carrington has now replied (copies attached).

[A]
[B,C]

2. Although the issues raised are mainly of tactics and presentation, I suspect that there is an underlying difference about our real objective. The Chancellor wants to say categorically that countries with below average GNP per head should not be net contributors to the Budget. The Foreign Secretary wants a looser formulation because he is conscious of the difficulties of coming anywhere near that objective in negotiation. This is an issue you do not need to decide upon now: the Foreign Office draft is not incompatible with the Treasury's objective nor with your making a very firm statement at Strasbourg about what you mean by "a fair balance of costs and benefits".

No
Yes

3. On the other two presentational points at issue, I think the Chancellor is right that we should put more emphasis on the basic argument of equity. The convergence argument has served its turn, but the advice we have received from Mr. Roy Jenkins and others is that, at Strasbourg, we should concentrate essentially on the imbalance and inequity of the Budget. On improving our position by increases in non-agricultural expenditure, there is no difference of substance, and the Foreign Secretary is right in saying that the German and the French will fight against undue expansion.

Yes
N

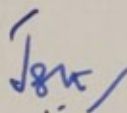
4. I understand that the Chancellor may be content that the revised Foreign Office version be shown to the Italians in advance of your meeting with Sr. Andreotti on Friday, although he thinks that, at the end of the day, we may have to settle for a shorter text. It is worth trying to agree something with the

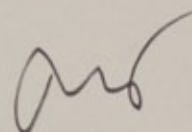
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Italians. Thereafter, and following up your meeting with President Giscard, we should try to sell it to the French. If they are willing to table something as a Presidency text the whole discussion in Strasbourg will be easier. If we have to table something it leaves the French along with the others free to try to water it down. If the Presidency text is not wholly satisfactory, you will still be able to argue for improvements during the meeting. If we discover that, despite what President Giscard said to you (and to Mr. Roy Jenkins) the French are unwilling to table anything remotely satisfactory to us, you will still be free to circulate your own text.

5. I suggest therefore that you might agree that:

- (1) The revised text could be shown to the Italians. ✓
- (2) That, subject to the outcome of your meeting with Sr. Andreotti, we should try to sell it to the French Presidency. ✓
- (3) That we should tell our Community partners early next week what your general line will be, and if necessary table a text of our own. ✓


(John Hunt)



13th June, 1979

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

CABINET OFFICE

A 1300

8th June, 1979

INSTRUCTIONS

Dr Pde

WJ

THE UK NET CONTRIBUTION TO THE EEC BUDGET

I think the time has come for us to review the line of argument we should use with our EEC partners in seeking to redress the injustice of our present net contribution to the EEC Budget. I believe we need a line which more closely reflects our own views as a Government and the better relationship with our EEC partners which we can hope to enjoy compared with our predecessors. In addition, I think we have reached a stage in the negotiation where a change of emphasis would be right.

My first point is that we are in a position to approach this problem in a more direct, forthright and confident way than our predecessors. As you know, Graf Lambsdorff, the German Economics Minister, put the point well when he told me that it was more dangerous for his government to face a tough stance on the Budget by a Conservative Government than it had been to resist the demands of our predecessors. Since we are unequivocal supporters of Community membership, our partners know they have got to face the issue. Opposition to the present net contribution position is common to both main UK parties.

This means that we need not be frightened by attempts to use pejorative formulae to rule us out of order like "renegotiation", "juste retour" or "acquis communautaire." We should be ready to say - as we said in the Conservative Manifesto in 1974 - that "renegotiation" of a kind is a continuous process, essential if the Community is to evolve and survive. What the process is called is neither here nor there. But it is a quite different process from "renegotiation" in the sense of British withdrawal, which is what part of the Labour Party still hankers after.

/Similarly,

The Rt. Hon.
Lord Carrington, KCMG, MC.

CONFIDENTIAL



Similarly, what the Community has "acquis" cannot be treated as immutable if the Community is not to ossify. And to the extent that any principle governs the net contribution position of the Budget, our complaint is that it is the exact opposite of the "juste retour."

Secondly, I think we should now try to talk less about resource transfers and convergence, and more about the simple proposition that our net budgetary contribution is unjust. I do not suggest that we resile from what has hitherto been said about convergence. In particular, that could put us into difficulty with our Italian friends who are at the moment our one clear ally in this argument. We must also be ready to use the argument about resource transfers at our expense outside the Budget in order to buttress our view of how MCAs should be treated. We must stand ready to say, when our view of MCAs is challenged, that, far from representing a Community subsidy to our consumers, they simply reduce the penalty imposed on us by the difference between CAP and world prices. I nevertheless believe strongly that in the budgetary context we should put all the emphasis on the injustice of our net budgetary contribution relative to our GNP per head. I say this for two reasons. First, it is likely in the end to be easier for our partners to accept the proposition rather than all the complex arguments about resource transfers and convergence which supply endless scope for argument. We must get across this message in language which points directly to the rectification we seek, avoiding oblique propositions which enable our partners to say that they are not quite clear what we want. The central plank of our case is that those below average GNP per head should not be net contributors to the Budget. This is the direct language we should use since it points directly to the rectification we seek.

My third point with which I know you and colleagues agree, is that we should not seek a solution through a major inflation of Community spending, intended to make room for a bigger share of receipts to the UK. A satisfactory solution is not possible by that route. It would in any case be contrary to our domestic views about public spending, and might well not give us the kind of reduction in UK public expenditure which would open the way to tax relief. At the right time, and as part of a bargain, we might be ready to give assurances eg to the Germans that we were not seeking inflated Community spending. You will recall that German Ministers canvassed our support for adhering to the 1 per cent VAT ceiling on "own resources" during

/Chancellor



Chancellor Schmidt's visit soon after we took office. The Italians might be more ready to seek a solution by the expenditure route and there might be a point at which their interests diverge from ours on levels of spending. I am however convinced that this is not the right route for us.

Underlying all this is the political argument. Our partners are of course well aware of this. But at the right time and at the right level it is a strong card, particularly perhaps in dealing with the Germans. That there is a real risk that if little or nothing is done to right the budgetary wrong, the Labour Party will become committed to taking Britain out of the EEC if and when it returns to power and will use the budgetary argument to gain support for this.

For my part I should like to recommend that the Prime Minister consider adopting this more forthright and direct approach at the European Council meeting on 21st/22nd June. There is a case too for preparing the way for it at the Finance Council on 18th June, but it is ^{at} the Strasbourg Council that we should aim to make most impact.

I hope you will agree that this change of emphasis is right. It is obviously extremely important to get the presentation of our case right because this is the main issue outstanding between us and the rest of the Community. You may like to know that in recognition of this, I have asked the Financial Secretary, with whom I have discussed this fully, to devote a considerable part of his time to our efforts to redress our contribution, once our own Budget is out of the way.

I am copying this minute to the Prime Minister, to our colleagues on OD(E) and to Sir John Hunt.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

GEOFFREY HOWE

QZ 01109

NOTE FOR THE RECORD

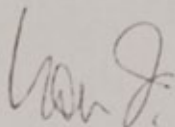
*Banker
by
1/2*

COMMUNITY BUDGET

In Luxembourg this morning Mr Crispin Tickell, Chef de Cabinet to Mr Roy Jenkins, gave me, in strict confidence, the following account of Mr Jenkins' meeting with President Giscard last Friday.

Mr Jenkins had argued (as he subsequently did in the Foreign Affairs Council) that the notion of convergence was obfuscating since for some people it meant economic discipline and co-operation and for others resource and budget transfers. The UK had a structural budget problem (the Italian problem was cyclical) which would produce a net contribution in 1980 of 1,000 MEUA or 1,400 MEUA if MCAs were attributed to the exporter. President Giscard had said that he thought the Prime Minister was looking for a technical and empirical solution. He thought the Commission could be given a mandate to establish the facts and figures and to "think of means to correct and adjust the excesses". In his, President Giscard's, mind there was a clear link between giving a mandate to the Commission and a decision on the agricultural price package. Without decisions on agricultural prices he did not see how we could sort out the budget. Mr Jenkins had noted that both the Prime Minister and the Commission wanted to freeze agricultural commodities in surplus. In his view, agricultural prices was a separate problem from the British budget contribution. President Giscard had accepted that a price increase for milk would be very difficult but thought that sugar and grains were in a different category. He thought the time had come for the Community to stop financing the milk surplus. Subsequently, when M. François Poncet had mentioned fisheries, President Giscard had repeated the link in his mind between the agricultural prices settlement and the mandate to the Commission and added that a settlement on fisheries should be linked with any new budget arrangements.

Mr Tickell assumed that the French would expect Mr Jenkins to pass on this information to us but nevertheless we should treat it with discretion. I told Mr Tickell that during my discussions with my French opposite number in Paris the previous evening he had made no attempt to establish a link. He had agreed with me that, given the respective positions of the French, German and UK governments, it was difficult to see how the Agricultural Council could settle on prices next week, but he went on to say that he did not consider this a suitable subject for the European Council.



M D M FRANKLIN

12 June 1979

cc Sir John Hunt

Mr Lever, for the Secretary of State
for Foreign and Commonwealth Affairs

Mr Richardson, for the Lord Privy Seal

Mr Butler, FCO

Mr Fretwell, FCO

Mr Cartledge, No 10 ✓

11 21
JUN 1979

15 JUN 1979

CONFIDENTIAL



CABINET OFFICE
A 1445
13 JUN 1979
PLING INSTRUCTIONS
FILE No. _____

FCS/79/116

CHANCELLOR OF THE EXCHEQUER

UK Net Contribution to the Community Budget

1. Thank you for your letter of 8 June. As you will now know from my minute of the same date to the Prime Minister (PM/79/51) I agree that we should look most carefully at what we want to get from the Strasbourg European Council. I enclose a revised text, which I understand the Prime Minister has approved, of the formulation we should like the Council to adopt.
2. As regards the supporting arguments we should use, I agree that we should not be at all inhibited from making our position clear, particularly since we have a much better basis for doing so than our predecessors. Equally I think we should avoid the enthusiasm they sometimes showed for slaughtering other people's sacred cows. For that reason I would prefer to avoid altogether the argument about "juste retour" etc, by using the formula in the attached draft. Of course we believe that "those with below average GNP per head should not be net contributors to the Budget". But I do not believe that our partners will in fact be persuaded to subscribe to such a form of words in the European Council conclusions. Nor do I think that we need try to force them to do so. Nor too do I think we should make any verbal assault on the concept of the "acquis communautaire" even if there are things about it which we are determined to change. As for "renegotiation", Schmidt and Genscher have both advised strongly against appearing to resuscitate that unloved word and I think they are right.
3. I agree that "resource transfers" are not a helpful concept. "Convergence of economic performance" on the other hand is Community's orthodoxy for saying that those with below

/average

CONFIDENTIAL



average GNP should make progress towards the level of living standards of the others, and this is a point that we shall from time to time find we want to make both directly and indirectly. The idea that the Community policies taken as a whole, and the Community Budget therefore in particular, should help towards this aim has only just begun to gain acceptance in the Community and I see no harm in using the phrase if it helps us to complete the process.

4. On the third point in your letter, I agree that there are several reasons why expansion of Community expenditure, even to the net benefit of the UK, would not by itself be an adequate or appropriate solution. On the other hand, it will certainly be too vigorously opposed by the Germans and French to be carried any further than we would wish. So I doubt if we need put our alliance with the Italians at risk by emphasising our own objections to it. The essential point is that, if there is to be any further Community expenditure, we should get our share.

5. I am copying this minute to the Prime Minister, to our colleagues on OD(E) and to Sir John Hunt.

C
/

(CARRINGTON)

Foreign and Commonwealth Office

12 June 1979

CONFIDENTIAL



COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three member States with below-average GNP per head. In time, these difficulties should become less serious. Reductions in agricultural surpluses should reduce the cost of the c.a.p. That in itself will lighten the budgetary burden and should make it easier to switch expenditure to policies designed to reduce regional disparities. Meanwhile solutions are urgently required to ensure that the Community budget produces a fair balance of costs and benefits for all member states and, in particular, does not continue to hinder member States with below-average GNP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.



10 DOWNING STREET

Prime Minister

You thought the
Draft formulation in the
Community Budget at
Flag A was too
jargon-ridden. I ~~thought~~ ^{attach}
a revised version
below. Are you content
that we should now
try to sell it to
our partners? But
yes ok. "No

COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three member States with below-average GDP per head. ~~in improving their economic performance~~
In time, these difficulties should become less serious. Reductions in agricultural surpluses should reduce the cost of the c.a.p., ^{that} ~~which will~~ ^{will} in itself lighten the budgetary burden and should make it easier to ^{include} ~~increase~~ expenditure ~~on~~ ^{to} policies designed to reduce regional disparities. Meanwhile solutions are ^{wigently} required to ensure that the Community budget produces a fair balance of costs and benefits ^{for all member States} ~~throughout the Community~~ and, in particular, does not continue to hinder member States with below-average GDP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.

ap/af/3.

~~has to be~~
~~done~~



PM/79/51

PRIME MINISTER

Prime Minister

Approve the action in para. 4, subject to the Chasullo's views?
See report - JGH
(dispute of F.O. members)
no

COMMUNITY BUDGET

1. In the light of your very useful talk with President Giscard, and of my own discussions with the German Foreign Minister on the same day, there seems to be a reasonable chance of getting a decision out of the European Council in Strasbourg which gets the first stage of our campaign for a fair deal on the Community budget off the ground in an acceptable way. But the drafting of the instruction to the Commission which the Council adopts will be of crucial importance since the subsequent stages will be hard fought both in the Commission and between the member states.

2. The first element which the decision needs to contain is that the Community budget should produce a fair balance of costs and benefits to all member states. That is a difficult proposition for others to argue against.

3. But a second element is equally important. Our supporters in the Commission and our representatives in later negotiations will need some agreed guidelines as to what results should flow from the proposals which the European Council calls for. Otherwise the French and Germans will try to fob us off with minor palliatives. On the other hand, if we try to go for too explicit a statement that we ought not to make a net contribution, we shall find that it is not negotiable. So I think that we must aim to get it agreed that Community policies taken as a whole and their financial consequences as reflected in the Community budget should not hinder member states with below-average GDP per head in their efforts to improve their economic performance. Unless we include this concept we have no basis for arguing that we ought to emerge with, preferably, no net contribution and, at the very least, with a far smaller one than France or Germany.

??

4. I enclose a draft along these lines. If you and Geoffrey Howe agree, I suggest that we should try to prepare the ground in advance

W'

(don't expect no net contribution. It is the size of the contribution - /so that is prohibitive. no



so that you have the best possible chance of getting agreement on such a draft at Strasbourg. This will entail early consultation with the Italians with whom we need to work closely; an attempt to sell our draft to the French Presidency who will be preparing the draft conclusions of the Council (though without agreeing to water it down at their request); some bilateral consultation with the Germans as suggested to you by President Giscard; and finally tabling in Brussels in time for all governments to receive it a day or two before Strasbourg.

5. I am copying this minute to the Chancellor of the Exchequer, the Lord President, and Sir John Hunt.

C

(CARRINGTON)

Foreign and Commonwealth Office

8 June 1979



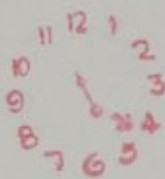
COMMUNITY BUDGET

71

The European Council recognised that at present the financial consequences of the Community budget create difficulties for certain member states in achieving the Community's aim of convergence in economic performance. In time, these difficulties should become less serious as a result of reductions in agricultural surpluses which will in turn reduce the cost of the CAP and make it easier to increase expenditure on policies designed to reduce regional disparities. Meanwhile solutions are required to ensure that the Community budget produces a fair balance of costs and benefits for all member states and, in particular, does not continue to hinder member states with below-average GDP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.

This is jargon to me. what is it supposed to mean. mb.

- 8 JUN 1979



CONFIDENTIAL



*European
Policy*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8th June, 1979

J. P. S.

*ABPM yel.
GEM
8/2*

THE UK NET CONTRIBUTION TO THE EEC BUDGET

I think the time has come for us to review the line of argument we should use with our EEC partners in seeking to redress the injustice of our present net contribution to the EEC Budget. I believe we need a line which more closely reflects our own views as a Government and the better relationship with our EEC partners which we can hope to enjoy compared with our predecessors. In addition, I think we have reached a stage in the negotiation where a change of emphasis would be right.

My first point is that we are in a position to approach this problem in a more direct, forthright and confident way than our predecessors. As you know, Graf Lambsdorff, the German Economics Minister, put the point well when he told me that it was more dangerous for his government to face a tough stance on the Budget by a Conservative Government than it had been to resist the demands of our predecessors. Since we are unequivocal supporters of Community membership, our partners know they have got to face the issue. Opposition to the present net contribution position is common to both main UK parties.

This means that we need not be frightened by attempts to use pejorative formulae to rule us out of order like "renegotiation", "juste retour" or "acquis communautaire." We should be ready to say - as we said in the Conservative Manifesto in 1974 - that "renegotiation" of a kind is a continuous process, essential if the Community is to evolve and survive. What the process is called is neither here nor there. But it is a quite different process from "renegotiation" in the sense of British withdrawal, which is what part of the Labour Party still hankers after.

/Similarly,

The Rt. Hon.
Lord Carrington, KCMG, MC.

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Similarly, what the Community has "acquis" cannot be treated as immutable if the Community is not to ossify. And to the extent that any principle governs the net contribution position of the Budget, our complaint is that it is the exact opposite of the "juste retour."

Secondly, I think we should now try to talk less about resource transfers and convergence, and more about the simple proposition that our net budgetary contribution is unjust. I do not suggest that we resile from what has hitherto been said about convergence. In particular, that could put us into difficulty with our Italian friends who are at the moment our one clear ally in this argument. We must also be ready to use the argument about resource transfers at our expense outside the Budget in order to buttress our view of how MCAs should be treated. We must stand ready to say, when our view of MCAs is challenged, that, far from representing a Community subsidy to our consumers, they simply reduce the penalty imposed on us by the difference between CAP and world prices. I nevertheless believe strongly that in the budgetary context we should put all the emphasis on the injustice of our net budgetary contribution relative to our GNP per head. I say this for two reasons. First, it is likely in the end to be easier for our partners to accept the proposition rather than all the complex arguments about resource transfers and convergence which supply endless scope for argument. We must get across this message in language which points directly to the rectification we seek, avoiding oblique propositions which enable our partners to say that they are not quite clear what we want. The central plank of our case is that those below average GNP per head should not be net contributors to the Budget. This is the direct language we should use since it points directly to the rectification we seek.

My third point with which I know you and colleagues agree, is that we should not seek a solution through a major inflation of Community spending, intended to make room for a bigger share of receipts to the UK. A satisfactory solution is not possible by that route. It would in any case be contrary to our domestic views about public spending, and might well not give us the kind of reduction in UK public expenditure which would open the way to tax relief. At the right time, and as part of a bargain, we might be ready to give assurances eg to the Germans that we were not seeking inflated Community spending. You will recall that German Ministers canvassed our support for adhering to the 1 per cent VAT ceiling on "own resources" during

/Chancellor



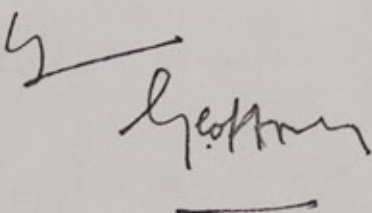
Chancellor Schmidt's visit soon after we took office. The Italians might be more ready to seek a solution by the expenditure route and there might be a point at which their interests diverge from ours on levels of spending. I am however convinced that this is not the right route for us.

Underlying all this is the political argument. Our partners are of course well aware of this. But at the right time and at the right level it is a strong card, particularly perhaps in dealing with the Germans. That there is a real risk that if little or nothing is done to right the budgetary wrong, the Labour Party will become committed to taking Britain out of the EEC if and when it returns to power and will use the budgetary argument to gain support for this.

For my part I should like to recommend that the Prime Minister consider adopting this more forthright and direct approach at the European Council meeting on 21st/22nd June. There is a case too for preparing the way for it at the Finance Council on 18th June, but it is ^{at} the Strasbourg Council that we should aim to make most impact.

I hope you will agree that this change of emphasis is right. It is obviously extremely important to get the presentation of our case right because this is the main issue outstanding between us and the rest of the Community. You may like to know that in recognition of this, I have asked the Financial Secretary, with whom I have discussed this fully, to devote a considerable part of his time to our efforts to redress our contribution, once our own Budget is out of the way.

I am copying this minute to the Prime Minister, to our colleagues on OD(E) and to Sir John Hunt.


GEOFFREY HOWE

- 8 JUN 1979





2

10 DOWNING STREET

Prime Minister ✓ has
seen
P. L. 6/11

You said that
you wished to have
all the facts about
the MCAs. This
note ^{OD(E) 793. d/18/5.} which I think
you have seen but
may not have had
time to study, is
still the best guide
to the subject. G.M.
8/6

copy to: PS/LPS
 PS/Mr Hurd
 PS/PUS
 Mr Butler
 Mr Fretwell o.r.
 Mr Franklin, Cabinet
 Office
 —Mr Cartledge, No 10

pa.
BM

Mr Bullard
 Private Secretary

CONFERENCE OF HEADS OF MISSION FROM COMMUNITY AND
 CANDIDATE COUNTRY POSTS

Time and Place

The Ambassadors have been convened for 10.15 a.m. in Room 102, Downing Street East, and the Secretary of State will take the chair at 10.30 a.m. The meeting is expected to end at about 12.45 p.m., after which the Heads of Mission and other senior officials will lunch with the Lord Privy Seal at Kettners Restaurant. Three cars will be available at the Park Door.

Attendance

2. A list of participants is attached at Annex 1.

Agenda

3. It is the custom to have no formal agenda and for discussion to be led from the chair. On this occasion the Heads of Mission will be particularly interested to hear at first hand Ministerial views on the Government's approach to Europe and to learn in more detail the intended strategy on specific Community issues: (officials can be called on as necessary to give factual information). However, the main purpose of this meeting will be to hear from the Ambassadors what response they expect from the Governments to which they are accredited; and, from them and Sir D Maitland, advice on the difficulties we may encounter and how to overcome them.
4. Brief points for discussion are attached on these lines (Annex 2). Background material has been given to Ambassadors. Also attached (Annex 3) is a first draft of the European Council Steering Brief (not yet cleared in Whitehall) which covers other main current Community issues.
5. Mr Butler agrees.

P C Petrie
 EID(I)

7 June 1979

MEETING OF COMMUNITY AMBASSADORS:

ATTENDANCE LIST

Secretary of State

Lord Privy Seal

Minister of State (Mr Hurd)

Permanent Under-Secretary

Sir Donald Maitland (UKREP)

Sir Oliver Wright (BONN)

Sir Alan Campbell (ROME)

Sir Reginald Hibbert (PARIS)

Mr Robin Haydon (DUBLIN)

Lord Moran (LISBON)

Sir Antony Acland (MADRID)

Mr Ronald Arculus (Ambassador-designate, ROME)

Mr I J M Sutherland (ATHENS)

Sir Peter Wakefield (BRUSSELS)

Dame Anne Warburton (COPENHAGEN)

Mr Patrick Wright (LUXEMBOURG)

Mr Roger Hervey (Chargé d'Affaires, THE HAGUE)

Mr M D M Franklin (Cabinet Office)

Mr D M Elliott (Cabinet Office)

Mr B Cartledge (No 10)

Mr Butler

Mr Bullard

Mr Fretwell

Mr Fergusson

Heads of: EID(E), EID(I), WED, FRD, Planning Staff,

News Department, ESSD, MAED, RID

POINTS TO MAKE

A new approach

1. Government's approach clearly signalled by Prime Minister to Chancellor Schmidt and President Giscard; by Secretary of State and Lord Privy Seal in bilateral visits; and in public statements. No overnight reversals of positions to be expected, but decisions already taken to remove some irritants (e.g. UK reserves on Bonn, Barcelona and Oslo Conventions, directive on aircraft noise). Further studies have been urgently put in hand on areas (energy, transport, social policy, environment) where constructive initiatives might be possible or where closer bilateral industrial co-operation with individual member States might reinforce Community policy and bring commercial advantages to UK. All this will be developed over longer term, but is also essential background to the three major problems in our relations with the Community (UK net budget contribution; agriculture, and fisheries) that will have to be tackled soon.

What response can we expect?

2. First reactions seem favourable, though doubtless other Governments will wait to see results. How much bread must be cast on the waters? And when can we expect some return for it? Should we go for a "global compromise", as suggested by the Germans - e.g. by negotiating the major issues separately but bringing them all for decision to the November European Council? or should we follow a more graduated approach?

Budget

3. Do Community Governments all acknowledge that the UK Budget problem requires remedial action? Does our presentation of the facts and figures carry conviction? Will the others consent to give the Commission instructions to make proposals to ensure that the Community budget does not in future hinder UK (and Italian) efforts to improve their economic performance?

EMS

4. Is UK readiness to participate fully a "touch-stone"? What do individual countries (particularly Belgium, Denmark, Ireland, whose currencies have been knocking along the bottom) think about their experience of it so far?

Agriculture

5. Are most other Governments reconciled to a price freeze this year? When will the French problem over German MCAs become intolerable for them? Is it really serious? (The French lived with it a very long time before getting excited.) Any sign of rethinking on agriculture, e.g. readiness to pay for own inefficient farmers or own surplus disposal in each country?

Fisheries

6. Are we over-optimistic in thinking that we can negotiate a 12-mile exclusive zone (subject to historic rights), satisfactory and enforceable overall quotas, together with access arrangements reflecting the needs of local fishermen in Communities depending on fishing? What is the best way to set about it? Will the Commission help? The Irish Presidency? At what stage will the Germans come off their legalistic approach? Or the French be ready to settle for very limited access within 12 miles?

European Council

7. Our first priority will be the budget problem. Secondly, preparation of Community positions for the Tokyo Economic Summit - particularly on Energy Saving and Oil Supplies. Any suggestions on tactics? What will be the major preoccupation of others.

Energy

8. What is it that other member States will look for here? Can we make more out of the fact that we are already supplying them with substantial amounts of oil. Will they regard long-term contracts at market (i.e. OPEC) prices as a significant move forward for which they would give some quid pro quo in other sectors? Are we right to go on pressing for a Community coal policy?

Industrial and Regional Policy

9. We will study scope for new or modified EEC policies, especially if these stand to give UK net budgetary benefit. Fields for consideration: expanded Regional Fund, Social Fund modifications and EEC finance for transport infrastructure including cross-channel links (on which there is a Commission proposal); aid for industry's costs arising from large-scale research and development or pollution control. But control of public spending means we will look rigorously at new spending policies in EEC as at home. How will all this strike others?

Bilateral and extra-Treaty collaboration

10. Can bilateral and other industrial co-operation within the EEC, though not organised by the EEC as such, thicken our governmental relations with other EEC States? Defence production? Nuclear production? Non-proliferation?

7 June 1979

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EQ(S)(79)10

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CABINET

STEERING COMMITTEE ON EUROPEAN QUESTIONS

DRAFT OF THE STEERING BRIEF FOR THE EUROPEAN COUNCIL,
STRASBOURG, 21/22 JUNE

Note by the Foreign and Commonwealth Office

1. Attached is a draft of the Steering Brief for the European Council, to be held in Strasbourg on 21/22 June 1979. It will be discussed at the meeting of EQ(S) at 10.30 am on Monday 11 June 1979. By then it will be possible to take account of the outcome of the Lord Privy Seal's visits to the Hague and Brussels and COREPER's discussion of the agenda today.
2. Also attached for discussion by EQ(S) is a draft brief on European Council procedures.

FOREIGN AND COMMONWEALTH OFFICE
7 June 1979

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EHG(S)(79)2 COPY NO.

7 June 1979

EUROPEAN COUNCIL, STRASBOURG
21/22 JUNE 1979

DRAFT STEERING BRIEF

Brief by the Foreign and Commonwealth Office

ORGANISATION

1. The first European Council this year was held in Paris on 12/13 March: the third will be in Dublin on 29/30 November. Normally one meeting a year is held in Brussels. But the French argued successfully that the second meeting this year should be in Strasbourg, where the new directly-elected European Parliament will be meeting for the first time on 17 July.
2. The timetable of events is at Annex A [to be attached later].
3. European Councils have been held regularly since December 1974. Their procedures are a mixture of informal and formal sessions. This has important tactical implications, which are described in Brief No 3.
4. Each country is represented by its Head of Government (in the case of France only by its Head of State) and Foreign Minister; and the Commission by Mr Jenkins and M. Ortoli. Brief No 4 gives brief personality notes and points for bilateral encounters with each.

/AGENDA AND DOCUMENTS

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AGENDA AND DOCUMENTS

5. As usual there is no formal agenda. But the French have announced the following themes for discussion. The order of discussion will be for the Council itself to settle.

- (1) Direct elections to the European Assembly
- (2) Energy
- (3) Economic and Social Situation in the Community.
The French envisage a review of current trends in the economic situation, taking account of reports commissioned by the March European Council on Employment and on Convergence; and an exchange of views on the working of the EMS; all against the perspective of the Tokyo Summit on 28/29 June.

[COREPER will consider the agenda and documents further on 7 June and Foreign Ministers on 12 June.] The following documents seem likely to be before the Council:

- (a) International Energy Situation: the Presidency will circulate proposals on the Community response to the latest developments;
- (b) Budget/Convergence:
 - (i) a report [by Finance Ministers] on the convergence of economic performance;
 - (ii) a resumé by [Finance Ministers/COREPER] on the convergence of economic performance;
- (c) EEC/Japan: there may be a Commission paper on relations with Japan.
- (d) Development of the EEC: the Commission may circulate a study of structural development prospects until 1990 as requested by the December 1978 European Council.

/UK OBJECTIVES

UK OBJECTIVES

6. (a) To explain HMG's general approach and their desire to promote agreement on issues which it has been difficult to settle in the recent past;

(b) To get agreement that, in order to remedy the inequities in the net Budget contributions, the Commission should be instructed to propose solutions in time for decisions to be taken at the November European Council;

(c) To reach agreement on a common position of the Community for Tokyo which will result in satisfactory decisions there to deal with the current energy crisis;

(d) In discussion of employment and social policy, to support measures to stimulate growth, while resisting proposals which would fuel inflation or impair industrial efficiency;

(e) To secure agreement on the line to be taken in discussions on trade relations and economic policies with Japan.

OBJECTIVES OF OTHER GOVERNMENTS

7. President Giscard and most other Member States except Italy will regard the energy question as the crucial item. Even if they agree that the Community Budget item should be dealt with and an instruction given to the Commission they will aim to ensure that its terms of reference do not concede more of the UK case than they have to.

8. Other Heads of Government will be looking forward to hearing at first hand the Government's attitude to the Community so as to judge whether the Government's European convictions are genuine rather than a tactic to get a solution to the UK's Budget problem. Such an account would probably best be given at an early stage.

RESUMÉ OF BRIEFS

ITEMS DEFINITELY FOR DISCUSSION

INTERNATIONAL ENERGY SITUATION (Brief No)

9. The French will concentrate on energy, both to enhance their own role as Community spokesman at the Tokyo Summit and to limit opportunities for debate on other issues. The imminence of the OPEC Ministerial meeting (26 June) will help them. Other Member States will also want to discuss the increasingly difficult world energy situation and energy points for Tokyo. We can go along with this, given the need to consolidate Community action on demand restraint and the desirability of presenting a united front on energy questions. But we will wish to ensure that energy does not dominate the meeting at the expense of other issues of importance to us.

BUDGET/CONVERGENCE (Brief No)

10. A Paper prepared by the Coordinating Group (of finance experts) will provide the opportunity to press for action on our net Budget contribution. The Paper is the result of the remit by the March European Council to the Council and Commission "to examine in depth how the Community could make a greater contribution by means of all its policies taken as a whole to achieving greater convergence of the economies of Member States and to reduce the disparities between them". The drafting meetings in the Coordinating Group revealed conflicting points of view, the UK and Italy agreed that the pattern of net budget contributions should contribute to convergence (ie. that the poorer should not transfer resources to the richer) and was not doing so at present. The others sought to evade or undermine this conclusion. A joint statement of the UK/Italian position is included in the report.

11. The unwillingness of officials in other Member States to acknowledge even that a problem exists confirms that a solution can only be found through a political decision at the highest level. It will certainly not be easy to get a satisfactory instruction to the Commission to produce proposals, though President Giscard may not be as unco-operative as his officials. The Prime Minister will need to decide tactics at the Council itself. But she will probably need to make a full statement on the first day if she is to prevent the Council being dominated by discussion of other issues. (A good part of the second day's discussion tends to be absorbed by detailed argument, on the text of the conclusions).

ECONOMIC SITUATION IN THE COMMUNITY (Brief No)

12. This review of the current economic situation could provide an opportunity, if it is needed, to drive home our concern about the Budget (Brief No).

EUROPEAN MONETARY SYSTEM (Brief No)

13. Probably not a major subject of discussion, although Belgium and Denmark may grumble that they are being hurt by the appreciation of the Deutschmark. The Prime Minister may come under pressure to modify the UK stance on EMS interest rate subsidies, which the brief recommends her to resist except as the price for securing a major concession elsewhere. On UK participation in the exchange rate mechanism she will probably need do no more than restate her commitment to reconsider the UK position when the mechanism is reviewed in September and meanwhile to take part in other aspects of the System.

/EMPLOYMENT AND

EMPLOYMENT AND SOCIAL POLICY (Brief No)

14. The European Council is likely to discuss the Community's role in tackling unemployment, and the involvement of the trade unions in Community business. The Presidency will almost certainly wish to include a section on this in their statement after the meeting. Our interest is in encouraging Community action which could have a practical effect on employment (notably concerted macro-economic action on growth and certain specific Community schemes such as Social Fund schemes and vocational training schemes); and to resist initiatives which are inflationary or impair industrial efficiency such as some proposed in the Standing Employment Committee.

PROSPECTS FOR THE TOKYO SUMMIT (Brief No)

15. A meeting of the European Council immediately before the economic summit traditionally provides an opportunity for those members of the Community who are not summit participants to express a view on the world economic situation so that the representatives of the Community (the President of the European Council and the President of the Commission) can express an agreed Community position. There will be general agreement that the energy situation is complicating an already uncertain international economic situation and that this should be the main subject for discussion and decision at Tokyo. UNCTAD V having reached only a limited measure of agreement - and with the developing countries facing growing balance of payments problems because of the oil price rises - the Tokyo Summit is also likely to have to address itself to the North/South dialogue.

EEC/JAPAN (Brief No)

16. The Japanese run a persistent surplus in their trade with the EEC (\$6.4 billion in 1978, up 11% on 1977). The March European Council expressed concern about this. Despite the narrowing of their overall surplus in the early months of this year, the surplus with the Community has gone down. In any case the reduction in their overall surplus is unlikely to be more than temporary as the recent depreciation of the Yen will lead

/to an

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to an increase in Japanese exports. We want to see the Japanese increase their imports of Community manufactures and bring about long-term structural change which will lead to a lasting reduction in their current account balance.

DIRECT ELECTIONS (Brief No)

17. Direct elections to the Parliament will have been held on 7-10 June. The French might try to discuss the results and other aspects eg. the powers of the Parliament, its relations with other Community institutions and its site (one of its working places is Strasbourg). But none of these merits substantive discussion by the European Council on this occasion.

POLITICAL COOPERATION SUBJECTS (Brief No)

18. [Briefing to follow when items for discussion are known.]

ITEMS WHICH MAY COME UP

COMMON AGRICULTURAL POLICY (Brief No)

19. The Agriculture Council is to meet to discuss farm prices for 1979/80 in the same week as the European Council, beginning on 18 June. The UK may be alone (except for possible support from Italy) in supporting the Commission's proposals for a price freeze. If the subject is raised at the European Council it will probably be because the Agriculture Council has failed to reach agreement; we are likely to be pressed to modify our position.

/COMMON FISHERIES POLICY

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COMMON FISHERIES POLICY (Brief No)

20. We hope that at the Fisheries Council on 25 June, a fresh start will be made to consider the issues in a better spirit so that there can be substantive progress at a Fisheries Council in the autumn.

[If UK national conservation measures are criticised] In the absence of Community measures, UK is forced to take national action on certain conservation measures, eg. minimum mesh sizes, in accordance with internationally agreed scientific advice, in order to protect fish stocks. Conservation will be discussed at the Fisheries Council on 25 June. (HMG have announced national mesh size regulations to come into force on 1 July.)

ECONOMIC AID FOR TURKEY (Brief No)

21. At the OECD pledging meeting on 30 May, the Turks were promised access to \$1.45 billion, made up of \$662 million in grants or loans (\$30 million from the UK), \$245 million in medium-term export credits, \$400 million from the commercial banks and \$150 million from the World Bank, all subject to their reaching an agreement with the IMF on a stabilisation programme. These figures do not include EEC aid, which amounts to \$400 million under the Third Financial Protocol between now and 1981 and \$100 million under emergency assistance. The results of the OECD meeting should make discussion of Turkey at the European Council unnecessary, even though the Turks have inevitably expressed dissatisfaction, particularly about IMF conditionality.

THREE WISE MEN (Brief No)

22. Unlikely to come up, except possibly in the margins of the Council. If it does the Prime Minister need say no more than that we attach importance to their work and look forward to their report due in October. She will be seeing the Wise Men herself on 16 July.

/ENLARGEMENT

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ENLARGEMENT (Brief No)

23. With the Greek accession treaty signed the Community will turn its attention to the negotiations with Portugal and Spain. Those with Portugal are unlikely to throw up any really difficult problems though Portugal may well require substantial aid over a long period. Those with Spain will involve more serious conflicts of interest. Both could finally join on 1 January 1983, two years after Greece.

24. The French, under pressure from their farmers, have slowed down the Spanish negotiations during their Presidency. It seems they accept that there should now be a speeding up. But they may be preparing to launch a bid for some form of Community compensation for the border regions of France to mitigate the expected effects on them of Spanish membership.

LOMÉ RENEGOTIATION : SIZE OF THE NEW EUROPEAN DEVELOPMENT FUND
(Brief No)

25. President Giscard may also raise the subject of the hiatus in the renegotiation of the Lomé Convention caused by ACP rejection of the Community's offer on the size of the new European Development Fund (EDF). During the 24-26 May EEC/ACP Brussels Conference it was accepted by all on the EEC side that under no circumstances could there be any increase on the figure of 4,540 mua (£2,951 m) agreed by Ministers during the Conference as the absolute maximum for the Community. But in view of the evident determination of the ACP to secure a much higher figure, the Commission and some Member States may attempt to reopen the matter.

FOREIGN AND COMMONWEALTH OFFICE
7 June 1979

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COPY NO

EUROPEAN COUNCIL
STRASBOURG, 21/22 JUNE

DRAFT OF A BRIEF ON EUROPEAN COUNCIL PROCEDURES

Brief by Foreign and Commonwealth Office

References: None

ORIGINS AND STATUS

1. The European Council is not an institution set up by the Treaties and its formal status is nowhere very clearly defined - partly in order to preserve its informality of procedures.
2. The European Council was established on a French initiative at the Paris Summit on 9 and 10 December 1974. The communiqué (text at Annex A) issued after that meeting said "The Heads of Government have therefore decided to meet, accompanied by the Ministers of Foreign Affairs, three times a year and whenever necessary, in the Council of the Communities and in the context of political co-operation".
3. The European Council is thus qualified to discuss both questions which fall under the Treaties and those that do not. It is theoretically possible for it to constitute itself as a Council of Ministers and take formal decisions on Community questions. But hitherto it has preferred to lay down "orientations" (guidelines) and leave execution to the appropriate Council.

ORGANISATION AND PROCEDURES

4. Under UK Presidency in June 1977 the European Council agreed on an internal document (text at Annex B) regarding its future organisation.
5. Succeeding Presidencies, in whose hands the preparations and conduct of European Councils essentially lies, have generally

/followed

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followed these guide-lines. The pattern of meetings has varied but has usually included:

- a) Initial luncheon meetings.
- b) Plenary sessions with simultaneous translation but no officials present except from the Council Secretariat and the Presidency (UKRep will provide a plan of the room at the table). The first such meeting generally remits for further work by officials the points that may appear in the final conclusions.
- c) Informal discussions over and after dinner, usually Heads of State and Government and the President of the Commission alone; and, separately, of Foreign Ministers and the other Commissioners alone, with "whispered" interpretation only. Private Secretaries are in attendance outside the dinners, sometimes plus one official.
- d) Working groups meet after dinner at official level to consider some or all of the draft final conclusions and/or press statements. Where officials are unable to agree, the passage goes forward to the Council in square brackets.
- e) A final plenary session (starting with a "family photograph") as at (b). The Presidency has been known to ask Heads of Government to work on a draft themselves without prior preparation by officials.
- f) A Press Conference by the Presidents of the Council and the Commission at which the general results of the Council are described and commented. The Prime Minister and Foreign and Commonwealth Secretary can call in a UK liaison officer at any stage if they want to send out a document for comment by UK experts or seek written advice from them. Up to two other officials can be brought into the room if needed but it is more usual for Ministers to consult them outside.

TACTICS

6. Experience has suggested that, although the informal discussions are well suited to high level meeting of minds and discussions of broad strategic concepts, very nimble procedural footwork is required in the more formal sessions, where the Presidency can vary the pace almost at will. In particular:

/a)

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- a) The order of the Agenda: unless an item is properly discussed on the first day it is extremely difficult to get agreement on a satisfactory decision by the end of the Council;
- b) The Council's conclusions: official working group drafts are supposed to reflect discussion in the Council. The Presidency Chairman gives his version of that discussion as a basis for drafting. The Prime Minister and Foreign and Commonwealth Secretary will wish to ensure that UK officials know our version.
- c) Follow-up Action: similarly it will not be possible to get any follow-up action taken on points not included in the written conclusions.

FOREIGN AND COMMONWEALTH OFFICE
7 JUNE 1979

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(EXTRACT)

ANNEX A

THE EUROPEAN COMMUNITIES
TEXT OF THE COMMUNIQUE ISSUED BY THE HEADS OF
GOVERNMENT OF THE NINE STATES OF THE EUROPEAN
COMMUNITY AT THEIR MEETING IN PARIS ON
THE 9th AND 10th OF DECEMBER 1974

1. The Heads of Government of the Nine States of the Community, the Ministers of Foreign Affairs and the President of the Commission, meeting in Paris at the invitation of the French President, examined the various problems confronting Europe. They took note of the reports drawn up by the Ministers of Foreign Affairs and recorded the agreement reached by these Ministers on various points raised in the reports.

2. Recognizing the need for an overall approach to the internal problems involved in achieving European unity and the external problems facing Europe, the Heads of Government consider it essential to ensure progress and overall consistency in the activities of the Communities and in the work on political co-operation.

3. The Heads of Government have therefore decided to meet, accompanied by the Ministers of Foreign Affairs, three times a year and whenever necessary, in the Council of the Communities and in the context of political co-operation.

The administrative secretariat will be provided for in an appropriate manner with due regard for existing practices and procedures.

In order to ensure consistency in Community activities and continuity of work, the Ministers of Foreign Affairs, meeting in the Council of the Community, will act as initiators and co-ordinators. They may hold political co-operation meetings at the same time.

These arrangements do not in any way affect the rules and procedures laid down in the Treaties or the provisions on political co-operation in the Luxembourg and Copenhagen reports. At the various meetings referred to in the preceding paragraphs the Commission will exercise the power vested in it and play the part assigned to it by the above texts.

4. With a view to progress towards European unity, the Heads of Government reaffirm their determination gradually to adopt common positions and co-ordinate their diplomatic action in all areas of international affairs which affect the interests of the European Community. The President in office will be the spokesman for the Nine and will set out their views in international diplomacy. He will ensure that the necessary concertation always takes place in good time.

In view of the increasing role of political co-operation in the construction of Europe, the European Assembly must be more closely associated with this work, for example through replies to questions on political co-operation put to the President in office by its members.

5. The Heads of Government consider it necessary to increase the solidarity of the Nine both by improving Community procedures and by

ORGANISATION OF EUROPEAN COUNCIL MEETINGS

1. Prior to the European Council meeting in Rome at the end of March, the Presidency circulated a paper (COREU NO. CPE/MUL/EEB 1160 of 23 March 1977) which sought to establish points of agreement which had emerged from the correspondence between Heads of Government about the ways in which the organisation of European Council meetings might be improved. In the light of the discussion at that meeting, which was followed up by Foreign Ministers on 5 April, the following points are understood to represent a generally acceptable framework for the organisation of future meetings:

(A) TYPES OF DISCUSSION

There is general agreement that the European Council should have both:

- (i) Informal exchanges of view of a wide-ranging nature held in the greatest privacy and not designed to lead to formal decisions or public statements.
- (ii) Discussions which are designed to produce decisions, settle guidelines for future action or lead to the issue of public statements expressing the agreed view of the European Council.

It is also recognised that the European Council will sometimes need to fulfil a third function, namely to settle issues outstanding from discussions at a lower level. In dealing with matters of Community competence the European Council will conform to the appropriate procedures laid down in the Community Treaties and other agreements.

(B) ADVANCE PREPARATION OF THE AGENDA

For informal exchanges of view, it is generally agreed that little preparation is necessary, although some limited prior clarification of the questions is not to be excluded if it would facilitate discussion. Heads of Government should inform each other or the Presidency, a few days beforehand, of the subjects which they will wish to discuss. There is general agreement that there should be adequate preparation of those discussions which are aimed at reaching decisions or issuing statements. Foreign Ministers should have responsibility for such preparation, which could take place in the

Council or the Political Cooperation machinery as appropriate, and will wish to meet at an appropriate time, and if necessary to hold a special meeting before the European Council, for this purpose.

(C) THE ISSUING OF STATEMENTS

It is generally agreed that the European Council will wish to make public its decisions on some subjects or sometimes to issue a statement registering a concerted Community opinion on a topic of international concern. Such statements should not, other than in exceptional circumstances, be issued without advance preparation. A list of the subjects on which it is proposed statements should be issued should be drawn up 2-3 weeks in advance.

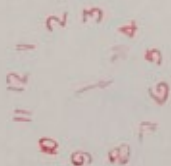
(D) THE RECORDING OF CONCLUSIONS

There should be no record of the informal exchanges of view between Heads of Government. For the discussions aimed at reaching decisions or issuing statements there should be a written record of conclusions, which should be issued on the authority of the Presidency.

(E) ATTENDANCE OF OFFICIALS

There is general agreement that the exchanges of views should be as intimate as possible and that attendance should be restricted as at present.

7 JUN 1979





Prime Minister

Foreign and Commonwealth Office

This is the revised version which you took with you to Paris.

London SW1A 2AH

7 June 1979

Dear Bryan, Are you now content with it?

It is better.

Community Budget

*BGM
7/6*

*Let it go out -
and*

In your letter of ~~31~~ May you recorded the Prime Minister's wish to see a more cogent presentation of the facts about our net contribution to the Community Budget. I now attach a revised note, which has been agreed with the Treasury, the FCO and the Cabinet Office. It combines the two annexes attached to Lord Carrington's minute of 29 May, incorporates the table of budget costs but omits the paragraphs in the original two annexes dealing with resource costs of membership.

The figures used however differ somewhat from those which the Prime Minister has previously seen. The briefing material prepared for her meeting on 21 May with Mr Jenkins (and the original briefing material prepared for her meeting with President Giscard) was based on earlier Commission estimates which showed the UK as the second largest net contributor in 1978 if monetary compensation amounts (MCAs) were attributed to the importing country. These figures did not allow for the final payment in respect of 1978 of the refunds which accrue to the UK from the transitional budget arrangements established under Article 131 of the Treaty of Accession. This final refund has only recently been paid. It applies, however, to the year 1978 and the Commission has accordingly revised its budgetary figures for 1978 to take it into account: as a result the UK now appears as the fourth, rather than the second, largest net contributor, falling behind France and Italy as well as Germany, if MCAs are attributed in this way.

The new table of budget costs therefore shows the position in 1978 both before and after the full Article 131 adjustments as well as the position with and without the inclusion of MCAs. Article 131 adjustments will continue only until the end of 1979. Thereafter the only mitigating factor on the British budget contribution to the Community will be the financial corrective mechanism, in so far as its provisions apply.

I should be grateful to know whether the Prime Minister now considers the attached note suitable for general use by Ministers, in which case the Cabinet Office will arrange for its circulation.

Yours etc.

Paul

P Lever

B G Cartledge Esq
10 Downing Street

CONFIDENTIAL

LINE TO TAKE ON OUR BUDGETARY POSITION

1. The attached table contains the Commission's own figures for 1978. The United Kingdom is seventh in the list of member states in terms of Gross Domestic Product per head but these figures show (column 1) that in 1978 we were already the largest net contributor to the Community budget at 943m EUA, or £625 million.
2. The figures in column 3 have been adjusted to attribute MCAs to the importing country and on this basis we become fourth largest contributor. But MCAs cannot be treated as budget receipts by importing countries like the UK and Italy. They are not consumer subsidies because they serve only as a partial offset to the cost to us of buying food at CAP prices and not world prices. They allow producers in high cost countries to sell to low cost countries while getting the same high return as in their domestic market.
3. As the table shows, we benefited in 1978 from the transitional arrangements (Article 131). Without them we should have been the largest net contributor however MCAs are treated (column 6).
4. In 1980, when the transitional period has ended, our net contribution will be well over £1000 (1500m EUAs) and we shall be far and away the biggest net contributor.
5. The problem is two-fold. First, we provide $17\frac{1}{2}$ per cent of the Community's income this year, and expect to provide 20 per cent next, whereas our share of the Community's GNP is only about $15\frac{1}{2}$ per cent. Second, we get back in receipts only about $7\frac{1}{2}$ per cent of the Budget.
6. The main reason for our low receipts is the CAP. It persistently takes more than 70 per cent of a growing Budget. Because our agriculture is small and efficient, less than 5 per cent of this expenditure takes place in the United Kingdom. We do rather better out of the Regional and Social Funds, but together they account for only 10 per cent of the Budget.
7. As a result the budget bears no relation to ability to pay. We and Italy are large contributors, whereas richer countries like Denmark and Belgium are substantial beneficiaries.

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8. The United Kingdom accepts that greater convergence in economic performance is primarily a matter of the right national policies. The new Government is determined to restore the United Kingdom economy. But Community policies should help those efforts rather than hinder them. At present they do not.

9. These inequities are a problem for the whole Community, as well as for the United Kingdom; until they are removed, the Community will remain unbalanced, and the commitments of Governments to Europe will be hampered by the effects on public opinion in the countries most adversely affected. In 1971 the original Six recognised that if unacceptable situations [over the Budget] should arise, 'the very survival of the Community would demand that the institutions find equitable solutions' (Cmnd 4715).

10. We are not arguing for a juste retour: ie that we should get out of the EEC precisely what we put in. Nor that member states' net contributions or receipts should precisely reflect their position in relation to average Community GDP per head. But we do not consider that it is right for countries with below average GDP per head to be net contributors to the Budget.

11. We want an early solution. It is for the Commission to suggest ways in which the imbalance can be corrected. The impetus will have to come from the European Council in Strasbourg on 21/22 June.

TABLE 1

NET TRANSFERS BY (TO) MEMBER STATES IN 1978

million eua

	1978 - Actual position		1978 - Without Article 131 adjustments			
	1 Recorded transfers	2 MCAs	3 Adjusted transfers	4 Recorded transfers	5 MCAs	6 Adjusted transfers
Belgium/Luxembourg	+ 380.4	- 45.1	+ 337.3	+ 415.4	- 45.1	+ 372.3
Denmark	+ 620.4	- 259.1	+ 381.3	+ 620.4	- 259.1	+ 381.3
Federal Republic of Germany	- 425.8	- 173.0	- 596.8	- 213.6	- 173.0	- 386.6
France	- 82.9	- 287.7	- 370.6	+ 47.4	- 287.7	- 240.3
Ireland	+ 536.2	- 210.4	+ 325.8	+ 517.8	- 210.4	+ 307.4
Italy	- 752.3	+ 418.5	- 333.8	- 672.9	+ 418.5	- 254.4
Netherlands	+ 220.5	- 179.8	+ 40.7	+ 265.4	- 179.8	+ 85.6
United Kingdom	- 942.5	+ 714.6	- 227.9	-1425.9	+ 714.6	- 709.3
Direct aid to Third Countries	+ 39.0		+ 39.0	+ 39.0		+ 39.0
Change in Commission's balances with national treasuries (2)	+ 393.9		+ 393.9	+ 393.9		+ 393.9
Differences on (3) exchange rates	+ 11.1		+ 11.1	+ 11.1		+ 11.1
	0	0	0	0	0	0

(1) At the average exchange rates for the years in question

(2) The national treasuries maintain accounts in the name of the Commission. Although the 1976 and 1977 budgets were in balance and executed, the balances on these accounts changed during the year. These balances do not earn interest and can be used by the Commission only to meet approved budgetary expenditure.

(3) These are accounting differences which arise because of the use of average exchange rates.

(1) The first of the above items is the only one which has been identified as being a member of the genus *Stenobothrus*. It is a member of the subgenus *Stenobothrus* and is distinguished from the other members of the subgenus by the following characters:

(2) The first of the above items is the only one which has been identified as being a member of the genus *Stenobothrus*. It is a member of the subgenus *Stenobothrus* and is distinguished from the other members of the subgenus by the following characters:

Character	Stenobothrus	Stenobothrus	Stenobothrus	Stenobothrus	Stenobothrus
Length	1.5-2.0	1.5-2.0	1.5-2.0	1.5-2.0	1.5-2.0
Width	0.5-0.7	0.5-0.7	0.5-0.7	0.5-0.7	0.5-0.7
Height	0.3-0.4	0.3-0.4	0.3-0.4	0.3-0.4	0.3-0.4
Weight	0.1-0.2	0.1-0.2	0.1-0.2	0.1-0.2	0.1-0.2
Color	Dark brown	Dark brown	Dark brown	Dark brown	Dark brown
Habitat	Forest	Forest	Forest	Forest	Forest
Distribution	Tropical	Tropical	Tropical	Tropical	Tropical
Remarks	New record	New record	New record	New record	New record
References	Smith, 1941	Smith, 1941	Smith, 1941	Smith, 1941	Smith, 1941
Material	1 specimen	1 specimen	1 specimen	1 specimen	1 specimen
Collector	Smith	Smith	Smith	Smith	Smith
Date	1941	1941	1941	1941	1941
Locality	Tropical	Tropical	Tropical	Tropical	Tropical
Notes	New record	New record	New record	New record	New record

-7 JUN 1979



RECORD OF THE PRIME MINISTER'S CONVERSATION WITH PRESIDENT

GISCARD D'ESTAING AT THE ELYSEE IN PARIS ON 5 JUNE 1979 AT 1110

<u>Present</u>	Prime Minister	President Giscard d'Estaing
	Mr. B.G. Cartledge	M. Jacques Wahl
		M. Christopher Thierry

European Policy

After welcoming the Prime Minister, President Giscard asked her how she would like to arrange their discussions and invited her to begin them. The Prime Minister said that she would like first to explain to the President that there would be two fundamental changes in the policy of the British Government. The first would be designed to strengthen the British economy and the Government would be moving towards the same kind of policies which had been pursued in France in recent years. It was essential that there should be changes in the law concerning the trade unions and these would be made. The Government had the advantage of a good working majority and there should be no doubt of their determination to put into effect the policies for which they had been elected. Secondly, the Prime Minister went on, there would be a change in British policy towards Europe. The Prime Minister said that she was the leader of a Party devoted in its philosophy to Europe, dedicated to the idea of the European Community and determined to pursue a policy of genuine co-operation. In such co-operation lay the best interests both of Europe and of the UK. There were, of course, particular problems over which the UK would have to fight for her interests but this would be done against a background of committed Europeanism. The Prime Minister suggested, and President Giscard agreed, that during their tete-a-tete discussion they might concentrate on European issues, with the forthcoming European Council meeting in mind, turning to wider international issues, including that of energy, when Monsieur Raymond Barre and Lord Carrington had joined them in an hour's time.

/Following

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Following up her reference to energy, the Prime Minister said that this was an issue on which there had been a great deal of analysis but too little work on possible solutions; a great deal of thought had been devoted to objectives so far as relations between the consumer and the producer countries were concerned but very little to the methods by which these could be achieved. The Prime Minister said that it had been her particular wish to visit a French nuclear plant during her brief visit because France had been the first European country to take fundamental decisions on energy policy, decisions which would stand her in very good stead in the future.

President Giscard said that France and the United Kingdom had a long history of partnership. He would like to speak very frankly about recent developments in their relations. With Jim Callaghan, President Giscard said, he had enjoyed a good and easy personal relationship. He had tried to build on to this a good working relationship but this had not really been possible since the last British Government had shown no interest in joint action in Europe nor any faith in the European Community. They had been interested only in unilateral advantage. This had been the experience not only of France but of the other governments in the Community, even those who might have sympathised, because of their Socialist beliefs, with a Labour Government. The result had been the formation of a kind of front from which the UK had been excluded. Despite their history as adversaries, France and the FRG had formed the habit of working very closely together. President Giscard said that the Germans were easy people to work with: they were constructive, showed good faith and kept their promises. There had been no intention on the part of France or Germany to exclude Great Britain from their deliberations; indeed, the FRG had tried very hard to bring Britain in. But, following a series of disappointments, it had proved impossible to do this.

President Giscard went on to say that the larger membership of the Community, soon to grow larger still, introduced difficulties and complications into its work. The smaller Community members were inclined to resent the fact that some decisions were, inevitably, imposed upon them. The larger members did their best to take account of the legitimate pride and interests of

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/the smaller

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the smaller countries: but the fact was that important goals could only be achieved by those countries which had the means to do so. President Giscard said that he hoped that the United Kingdom would now be a more active partner in the Community. Her contribution was badly needed; she had, for example, a much wider international experience than the FRG.

The Prime Minister said that there was a very real determination on the part of the new British Government to play their full part in Europe. So far as the Anglo-French bilateral relationship was concerned, there were things in common between France and Britain which did not exist as between Britain and the FRG. This was particularly true in some defence matters, where the division of Germany created a different dimension in the German approach. The Prime Minister said that it was her special wish that bilateral relations between France and the UK should go well, not just at the time of major meetings but for twelve months of the year. President Giscard said that his reading of history and historical biography had impressed him with the very special nature of the Anglo-French relationship: there had been competition between them for hundreds of years, interspersed by close links and bitter fights. During the nineteenth century, the relationship had been characterised by suspicion and irritation. It was his personal belief that this period was now over: neither country was any longer competing with the other for international supremacy, since the period of empire had come to an end. Both countries now faced similar problems. Against this background, it should not be difficult to create an atmosphere of partnership between France and Britain.

Commenting further on the British approach to the EEC, President Giscard recalled that the UK had joined the Community late and had then engaged in a so-called renegotiation; the result had seemed to be that the UK had never been at ease within the Community. Having entered under special terms, there had always been a feeling that the UK was pleading a special case.

/EEC Budget

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PM/Giscard Meeting note : 5 June 1979

Original on :
France : visit to :
May 79.

EEC Budget

The Prime Minister told President Giscard that the present structure of the Community budget presented the UK with a very major problem: at the end of the transitional period, the UK would be making a net contribution of £1500 million. The Government would like to have some of this money to pay for domestic tax reductions. The Prime Minister said that she hoped very much that this question could be given a place on the agenda for the next meeting of the European Council at Strasbourg. She had already asked the President of the Commission to establish the facts. The present situation was a grave embarrassment to the Government's efforts to push the case for Europe in the UK; it was unjust and unreasonable. The UK certainly did not expect to get out of the Community exactly what she put into it; the Government also expected to improve the UK's economic performance. The budgetary situation in 1980, however, would nevertheless be acutely difficult. A constructive discussion at Strasbourg, leading to solutions, would be a great help to the Government in putting the case for Europe to the British people. The Prime Minister expressed the view that the problems of the CAP and those of the Community budget could and should be kept separate; there was also a clear distinction between the CAP as such and the way in which it was financed. The Prime Minister said that, as a committed European, she did not wish this one major problem to dominate the UK's future discussions with her partners any longer.

President Giscard said that he understood the Prime Minister's view. He recalled that, in the past, the UK had always supported higher expenditure by the Community, while asking that she should pay a smaller share of it. It was necessary to adjust in both directions. The Community's budget was now far too lavish; it was absurd that money should be thrown away on a building of 110,000 sq.m. in Brussels. The French Government favoured a tight budgetary policy for the Community. They also strongly favoured the "own resources" system of calculating the contributions: import duties paid in Rotterdam should not belong to the Dutch but to European trade as a whole. France had agreed to allocate 1% of VAT revenue to the Community budget but this should be sufficient.

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/Turning

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Turning to the problem of the MCAs, President Giscard said that France was opposed to them and believed that they could be quickly eliminated if it were not for the UK and Italian ^{On the Community budget,} positions. 1979 was the last year in which some of the UK contribution would be refunded: the question was, should this period be extended further? The Prime Minister said that this would be one possibility. She showed President Giscard the table of figures, from her briefs, setting out the UK net contribution in 1980. President Giscard admitted that there was a problem. The Prime Minister pointed out that a 50% reduction in the UK's net contribution would be the equivalent of a 2% reduction in income tax. She went on to say that the MCAs had never been intended to operate as they now did: the UK could produce more food, particularly butter and bacon, very competitively. President Giscard commented that the agreement reached in Dublin on the corrective mechanism lasted only until 1979 and the Prime Minister pointed out that, since it required three years of balance of payments deficit, it would not operate in any case for the UK, because of North Sea oil. The Prime Minister said that, although the Government hoped that the UK's GNP would grow, it was nevertheless wrong in the meantime that, with only 15½% of the Community's GNP, the UK should account for 18% of the Community's budget.

President Giscard told the Prime Minister that if the UK wished to ask the European Council to include the problem of the budget in the agenda for Strasbourg, France would have no reason to object although, for formal reasons, she would have to consult the other members. He for his part would be prepared to circulate appropriate proposals for the agenda and would suggest to the Prime Minister an appropriate formulation on the budget. He suggested that there should be, at Strasbourg, a general discussion of the budget lasting for, say, half an hour, and that the Council could then instruct the President of the Commission to establish the facts and analyse the situation; then, at their next meeting in Dublin, the Council could draw the necessary conclusions. The Prime Minister commented that the facts had already been established: they could be laid before the Strasbourg Council and the Commission could then be asked,

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/not for

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not for facts, but for ideas on how the position could be corrected. President Giscard said that he could agree to this. The Council could conclude that a problem existed and ask the Commission to suggest ways of correcting distortions in the situation. It would be necessary to work closely with the Germans and to have discussions with them behind the scenes.

CAP

President Giscard said that France had earned a bad reputation so far as the CAP was concerned and he wished to change it. France was the largest producer of agricultural products in the Community, although in some areas such as meat and dairy products she was not the most competitive. France wished to compete on fair terms. The French Government would, he repeated, be glad to see the MCAs eliminated but any such move was blocked by the UK's attitude on the question of a price freeze. It was difficult for any Government to reduce the prices payable to their farmers: Chancellor Schmidt had agreed to reduce the MCAs provided that there was a nominal increase in prices at the same time. An increase of 2%, for example, would reduce positive MCAs to zero. It would be possible for the UK to share this position while opposing any increase in the prices of products which were in surplus. President Giscard said he hoped the British Government could reconsider their attitude on this matter. France, for her part, had no desire to increase the surpluses still further and was, indeed, prepared to contribute to their reduction. France was nevertheless profoundly attached to the principle of a single market in agriculture and to the maintenance of a barrier around the Community against the rest of the world. Although the proposal was still confidential and he did not wish the press to learn of it, the French Government was thinking of suggesting that a system should be devised in which those countries which were responsible for creating the agricultural surpluses should also be responsible for financing them.

/The Prime Minister

CONFIDENTIAL

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MR LEVER (Fco)

Community Budget

In his letter of 31 May, Mr Cartledge said the Prime Minister would like a more cogent presentation of the facts about our net contributions, making use of the table which she had when she saw Mr Roy Jenkins. I now attach a revised note which has been discussed with Treasury and FCO. You will see it conflates the two annexes attached to the Foreign and Commonwealth Secretary's minute of 29 May, uses the table of budget costs and omits the paragraphs dealing with the resource costs of membership.

2. One other word of explanation is, however, necessary. In her briefing for Mr Jenkins (and for President Giscard) the Prime Minister had earlier Commission estimates which showed the UK as second largest net contributor in 1978 if MCAs were attributed to the importing country. However, these figures did not allow for the final Article 131 adjustment which benefits us and which has only recently been paid. The Commission has revised its figures to take this into account, which we think reasonable enough, and this has the result of putting us behind France and Italy as well as Germany, as the fourth largest net contributor. The brief for President Giscard is being amended.

3. The Prime Minister has asked to see the note in draft before it is circulated to Cabinet Ministers. If the Foreign and Commonwealth Secretary is content you will wish to submit it to No 10. In doing so, you will wish to draw attention to the changes which have now been made, and the correction to the figures. In this form, the note should be suitable for general use. But the Foreign and Commonwealth Secretary and other Ministers who get involved in discussion with their Community opposite numbers will inevitably have to go into more detail. It is therefore important that, in addition to approving the note for general circulation, the Prime Minister should be asked to say whether she is generally content with the line in Annex A to the Foreign and Commonwealth Secretary's minute, which was the line suggested by the Chancellor and endorsed by OD(E).

PersonalMr. Cartledge

In case this does
not reach you before
Paris - ad you need
it - here is an advance
copy. *W.D.*
3/6

W.D.
M D M FRANKLIN
CABINET OFFICE SW1
4 June 1979

CONFIDENTIAL

file

DS



cc: CO
Att. Gen.
JT
Maff
L.P.S.
L.P.C.
TOY

EURO
POL

10 DOWNING STREET

From the Private Secretary

31 May 1979

~~BF 8.6.79~~

Dear Paul,

Community Budget

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute (PM/79/47), and its annexes, about the Community Budget.

The Prime Minister agrees in principle that it would be useful to circulate to Cabinet Ministers and to the Minister of Transport a statement of the Government's general line on the Community Budget, supported by factual material. The Prime Minister has, however, commented that the paper annexed to Lord Carrington's minute will not, in her view, be understood except by those Ministers who already know what it is trying to say. The Prime Minister points out that Chancellor Schmidt took a great deal of convincing that the facts concerning the EEC Budget are what we say they are; and he also protested vigorously that only half a dozen people in the FRG understood MCAs. The Prime Minister does not consider that the papers suggested by Lord Carrington are phrased in the most cogent terms or that they use the most telling figures. The Prime Minister recalls the table of Budgetary contributions which was provided with the briefs for her discussion on 21 May with the President of the Commission and believes that this, with a few annotations, would be more useful and effective material for Ministers.

I should be grateful if you would arrange for a revised paper to be prepared in the light of the Prime Minister's comments and for the Prime Minister to see it in draft.

I am sending copies of this letter to the Private Secretaries to the other members of OD(E) and to Martin Vile (Cabinet Office).

Yours ever,
Roger Liddle

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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EUROPEAN
POLICY

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PRIME MINISTER

Community Affairs

Following last week's Cabinet discussion, you may wish to confirm (in the light of the Foreign and Commonwealth Secretary's minute of 29th May) that you will be circulating to Cabinet Ministers a simple statement of the basic facts underlying the Budget problem and a line to be taken in bilateral contacts.

2. The Lord Privy Seal (in the absence of the Foreign and Commonwealth Secretary) might be invited to report briefly on the 24th-26th May ACP/EEC Ministerial Conference which was unable to agree on a new Lome Convention. Although considerable progress was made towards settling other aspects of the renewed Convention, including trade, minerals, agricultural co-operation, duration and human rights, agreement could not be reached on the level of the new European Development Fund (EDF). The Community offered a total of 5107 MUA, justifying this figure on the grounds that it represented the maintenance in real terms of the present EDF. This was slightly above the figure we wanted, but most of our Community partners would have been ready to go higher. The ACP asking figure was 10,000 MUA plus 10 per cent for new elements in the Convention. Both sides agreed to resume negotiations at a later date; but our Community partners have agreed that the Community offer is non-negotiable and cannot be increased.

3. There should be no need for any other Community matters to be discussed. Though the Cabinet will not take Community Affairs again until after the 12th June, Foreign Affairs Council, any policy issues arising at that Council which call for Ministerial decisions should be brought before the Ministerial Sub-Committee (OD(E)).

John Hunt

30th May 1979



CONFIDENTIAL

Prime Minister

Agree - X - ?

GM
31/5

P.A.
GM
31/5

PM/79/47

PRIME MINISTER

Community Budget

1. At its meeting on 23 May the Ministerial Sub-Committee on European Questions discussed a paper by the Chancellor on our inequitable net contribution to the Community Budget and on the line which we should take in bilateral contacts with other Member States. The Lord Privy Seal and I between us intend to see the Foreign Ministers of all the other Member States before the European Council in Strasbourg on 21/22 June, and the Chancellor and his colleagues will try to do the same with as many of the Finance Ministers as possible. Annex A summarises the general line we should be taking. Annex B contains a simple statement of the facts which we can all use. A fuller statement of the problem is in the Chancellor's paper circulated as OD(E)(79)7. The Sub-Committee has commissioned more work on the reasons why our net budgetary contribution has developed as unfavourably as it has. This will be helpful for our bilateral contacts and in the preparatory briefing for the European Council.

X | 2. If you agree I would suggest that you might circulate the annexes to this minute to all Cabinet Ministers and the Minister of Transport so that in using any opportunities they may have with their Community colleagues to reinforce the message they speaking a common line.

3. I am sending copies of this minute to the members of OD(E) and to Sir John Hunt.

(CARRINGTON)

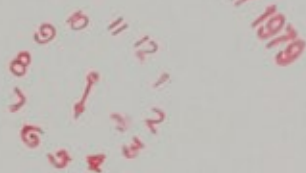
Foreign and Commonwealth Office

29 May 1979

CONFIDENTIAL

In principle - agree. But the annexed paper will not be understood if it has been read simply by Ministers who already know what it is trying to say. P.A.

More Schmidt, look some convincing and
protested vigorously that only 1/2 doz people
understand M.C.A. The answers are
not phrased in the most cogent terms - nor
do they put the most telling figures.



(The letter I had for the Roy Jenkins
interview - with a best connection - is
much more effective.)

act

LINE TO TAKE ON OUR BUDGETARY POSITION

The following line could be taken in bilateral Ministerial contacts:

1. The Government is committed to the Community and is not seeking to re-negotiate the terms of UK membership. But Community policies have developed in such a way as to produce an inequitable and unacceptable pattern of transfers. In 1971 the original Six recognised that if unacceptable situations over the Budget should arise, 'the very survival of the Community would demand that the institutions find equitable solutions'. (Cmd 4715).
2. The UK accepts that greater convergence in economic performance requires appropriate national policies, and the new Government is determined to restore the UK economy. But Community policies should help rather than hinder these developments. It is now acknowledged that at present they do not.
3. The UK is seventh in terms of living standards, as ^{measured} by GDP per head. The UK net Budgetary transfer for 1978 was £625 million, (EEC Commission's figure) after all adjustments, even while the transitional arrangements are still operating. This was either the highest or second highest contribution, depending on the attribution of MCAs. In 1980 when the transitional period has ended the net contribution will be over £1000 million, and will exceed Germany's on any attribution of MCAs.
4. These inequities are a problem for the whole Community, as well as for the UK; until they are removed, the Community will remain unbalanced, and the commitment of Governments to Europe will be hampered by the effects on public opinion in the countries most adversely affected.

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5. The problem must be tackled now, and the Community must be seen to be taking effective measures before the end of this year.
6. We are not arguing for a juste retour: ie that we should get out of the EEC precisely what we put in. Nor that member states' net contributions or receipts should precisely reflect their relative position in relation to average Community GDP per head. But we do not consider that it is right for countries with below average GDP per head to be net contributors to the Budget.
7. The dispute over the attribution of Monetary Compensatory Amount (MCAs) cannot be resolved without regard to the total economic effects of the CAP. But for the purpose of considering budget transfers, we are ready to discuss possible solutions.
8. We are ready to examine any way by which the budgetary imbalances are corrected. We could accept a combination of methods provided that the total impact is adequate. We believe that, in the first instance, it is for the Commission to come up with proposals, but we should like to hear the views of our partners.
9. We therefore believe that the European Council at Strasbourg on 21/22 June should instruct the Commission to make proposals designed to bring about rapid, durable and effective corrective action. This should also be applicable to the conditions of an enlarged Community. These proposals should be available in sufficient time for decisions to be taken at the December European Council.

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ANNEX B

UK NET CONTRIBUTION TO THE COMMUNITY BUDGET

Key points and figures for use publicly:-

1. The net contribution on published Commission figures was £625 million (943 MEUAs)* for 1978, after all adjustments, even while the transitional arrangements are still operating but treating MCAs as paid to the benefit of the exporter.
2. If it were not for the transitional arrangements we should have been the largest net contributor in 1978 on any basis, however MCAs are attributed.
3. It will be well over £1000 million (1506 MEUAs)* in 1980 and we shall be the biggest net contributor after 1980.
4. But we are only seventh in terms of living standards as measured by GDP per head.
5. It is not equitable that the Community's policies should mean that the less well off make transfers to the more well off.
6. On contributions, we expect to pay $17\frac{1}{2}$ per cent this year, and possibly 20 per cent next, though our share of the Community's GNP is about $15\frac{1}{2}$ per cent.
7. On receipts, our share of Budget expenditure in 1978 was only about $7\frac{1}{2}$ per cent.
8. The Guarantee Section of the CAP takes about 70 per cent of the Budget. Less than 5 per cent of this expenditure takes place in the UK.

*The difference in the treatment of MCAs would bring the £625 million in point 1 down to £151m, and would affect the £1000m figure in point 3, but point 11 below explains why such reductions only partly offset the economic cost of the CAP to the UK.

9. We got £35 million from the Regional Fund and £63 million from the Social Fund last year.

10. The Financial Mechanism negotiated by the previous Government in 1975 was meant to mitigate unfair contributions. But it is inadequate. It works on gross contributions. It lays too much stress on a balance of payments test. It will work in 1980 to give us £30-40 million net, in respect of the 1979 Budget, and is unlikely to give us more in future years. (It is to be reviewed by 1981.)

11. The net Budgetary contribution is not all. The full economic cost of UK membership should take account of the gains and losses through the operation of Community policies in the field of agriculture, fisheries, and trade. The most important element is the cost of buying food from the EEC at prices well above those of alternative supplies in the world market. MCAs are only a partial offset to this cost. This cost can be calculated but the Community has not so far been willing to do it.

12. When the UK joined the EEC it was expected that there would be gains for the UK from trade in manufactures. There has been a significant increase in trade between the UK and the EEC in both directions.

13. But the net effect on the balance of trade between the EEC and the UK has probably been negligible. Any benefits from freer trade are much more than offset by the UK's resource losses, including its net budgetary contribution.

14. We want an early solution, to relieve public expenditure and the balance of payments. It is for the Commission to suggest ways in which the imbalance can be corrected. The impetus will have to come from the European Council in Strasbourg on 21/22 June.

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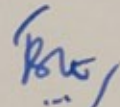
PRIME MINISTER

Community Affairs

← You may wish to tell the Cabinet of your talk with Mr. Roy Jenkins, President of the Commission, at which you urged the need for the Commission's help to get the facts about the United Kingdom's net contribution to the Community budget established. Mr. Jenkins said the Commission was ready to accept a move from the European Council to propose solutions.

← 2. The Ministerial Sub-Committee on European Questions (OD(E)) will have had its first meeting on 23rd May. The Foreign and Commonwealth Secretary might be invited to report. The Sub-Committee considered what could be done to give substance to the positive approach already expressed by the Government, and commissioned a number of studies by officials. As foreshadowed in last week's Cabinet (CC(79) 2nd Conclusions, Minute 3), the Sub-Committee also agreed a paper by the Chancellor of the Exchequer setting out the facts and proposing a line to be taken by United Kingdom Ministers in bilateral discussions with our Community partners on the budget problem before the June European Council. Lord Carrington will be minuting you shortly seeking approval of the line to take and suggesting that it should be circulated to all Cabinet Ministers.

← 3. The Foreign and Commonwealth Secretary might also be invited to assess the prospects for the 24-25th May final negotiating Conference on the renewal of the Lome Convention. This Conference will be preceded by a short Foreign Affairs Council on 24th May designed to finalise the Community's position on a number of issues still outstanding with the African, Caribbean and Pacific (ACP) countries. The difficult question of the size of the new European Development Fund (EDF V) will probably not be settled until the closing stages of the main negotiation.


(John Hunt)

23rd May, 1979

CONFIDENTIAL

Original on: Euro Pol
Euro. Pol: Jenkins
May 79.

Note of the Prime Minister's Conversation with the President of the European Commission, Mr. Roy Jenkins, at 10 Downing Street, on 21 May, 1979, at 12 noon

Present:

The Prime Minister	The Rt. Hon. Roy Jenkins
Mr. Michael Franklin	Mr. Crispin Tickell
Mr. B.G. Cartledge	

After welcoming the President of the Commission, the Prime Minister said that it would not be necessary to repeat to him the Government's general approach to Europe, which was that inherited by the Conservative Party from Mr. Macmillan and Mr. Heath. There could be no question of the UK ever again standing outside Europe, and the Government was fully aware of the great advantages which accrued to the UK through her membership of a larger group of nations. The UK would continue to fight her corner in the Community vigorously, but this would be done against an overall background of cooperation with her partners. The Prime Minister said that the EMS posed problems for the UK since the Government wished to retain a high exchange rate for the pound for the time being: the outlook on inflation was not good, and it was doubtful that the UK would be able to enter the EMS in September, although she would probably be able to give a demonstration of her good intentions by swapping some of our gold and dollar reserves for ECUs. The Prime Minister said that she was not persuaded that the EMS could in itself bring about the convergence of the EEC economies; this could only be done by the adoption of convergent policies by the member governments.

Mr. Jenkins said that he thought that the argument in favour of UK entry into the EMS in the autumn was that late joiners were apt to suffer disadvantages, just as the UK had done in relation to the EEC as a whole. The Prime Minister agreed, but

/ pointed

CONFIDENTIAL

pointed out that no one could have foreseen that the CAP would have to operate in circumstances of such wide currency differentials, and of such high levels of MCAs. The structure of the CAP made no sense in current circumstances. The Prime Minister said that she did not complain about the fact that, as a result of the UK's lack of competitiveness in the industrial field, Europe enjoyed unchallenged access to the UK market for manufactured goods. She did, however, complain about the fact that in agriculture, where the UK was so much more efficient than her continental partners, the UK was denied an equivalent market for her agricultural produce. At the moment we were losing all ways round, and on fish as well. The present structure of the CAP could not last, and something had to be done about it. Mr. Jenkins said that the budgetary allocation to the CAP was immense: but this problem should not be confused with that of the structure of the CAP itself. It was not possible to solve the problems of the Community budget by way of reforming the CAP, although a further escalation of the cost of the CAP could and should be prevented.

Mr. Jenkins went on to say that the Commission completely stood by its commitment to a price freeze for agricultural products which were in surplus, and wished in addition to do something about milk by means of the co-responsibility levy. If the cost of the CAP were allowed to escalate further, any effort to solve the problem of the Community budget would be neutralised. The Prime Minister told Mr. Jenkins that the UK would stick firmly to the VAT 1% ceiling. Mr. Jenkins expressed some doubt as to whether this could in itself contain the cost of the CAP.

Mr. Jenkins said that everything he had heard from German sources indicated that Chancellor Schmidt's visit to London had gone very well; but he gathered that the Prime Minister had found the Chancellor very hard on the subject of the budget. The Prime Minister said that she had been astonished to find a

/disposition

disposition on Chancellor Schmidt's part to argue about the facts. Mr. Jenkins said that there was good reason to believe that what the Prime Minister had told Chancellor Schmidt about the budget had sunk in, and that the Chancellor was now much more disposed to recognise that there was a problem. The Prime Minister said that she, for her part, was deeply alarmed by the budget situation: partnership implied a just and reasonable deal for everybody, and the UK was not getting one from her EEC partners. Against this background, it was difficult to sell Europe to the British people. The Community approach to fisheries policy also hit the UK very hard: without some give on this issue, as well, it would be difficult to rally the British people to Europe.

Mr. Jenkins said that it had to be borne in mind that the UK was operating against the background of the renegotiation which had produced the present financial terms: there was a disposition to argue that the UK had made her bed, and should lie on it. It would be difficult to achieve the necessary adjustments unless the UK was seen to be co-operative in other fields. The Prime Minister said that it was important that Commissioner Gundelach should stand firm on farm prices. Mr. Jenkins replied that the Commissioner would do so so far as products in surplus were concerned, and also on the co-responsibility levy for milk. The Commissioner's concern was that the UK might destroy his efforts by its attitude to the co-responsibility levy. It would be a mistake to assume that all British agriculture was efficient and all continental agriculture inefficient; in some areas, the difference in efficiency was in fact very small. The Prime Minister said she could not have British dairy farmers paying the co-responsibility levy when less efficient farmers were exempt.

Turning again to the budget, Mr. Jenkins said that it would be important for the UK to avoid giving the impression that the budget was the only focus of interest. The first essential, however, would be to ensure that the budget would be accorded full and serious discussion at Strasbourg. President Giscard, whom the Prime Minister was shortly to meet, would not be keen to

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- 4 -

give ground on budgetary matters, and he, as President of the Council, would have a major say in the Strasbourg agenda. Mr. Jenkins said that he did not think that it would be realistic for the British Government to aim at a solution to the budget problem in June: the right strategy might be to aim at achieving a solution by the time of the December European Council, under the Irish Presidency. The Prime Minister commented that the first essential would be to secure an agreed statement of the facts of the budgetary situation. Mr. Jenkins said that there was no dispute about the broad essentials of the position; it was perfectly possible to demonstrate what had happened in 1978, and also what would have happened in that year under the 1980 rules. The difficult question was to arrive at an agreed assessment of the impact of the MCAs. In the UK, the MCAs benefited the consumer and the Treasury, but worked to the disadvantage of the farmers, whereas in the FRG the situation was reversed. The Prime Minister said that, even on the basis of the method of payment agreed in 1976, ie. that MCAs were paid to the exporting country, the UK remained the second largest net contributor to the Community budget. Mr. Franklin interjected that the UK would, on the same basis, be the largest contributor if it were not for the transitional arrangements. The Prime Minister quoted the figures in her brief for the net transfers by and to EEC Member States in 1978 and Mr. Jenkins confirmed that they agreed with his own. Mr. Jenkins went on to point out that, although it was possible to be clear about the position in 1978, there were a number of uncertainties surrounding the outlook for 1980. It nevertheless looked as if the UK would remain in net deficit, to the order of 1,440 million ecus if MCAs were attributed to exporters and 1,040 million ecus if they were attributed to importers. In 1980, the UK would probably be paying approximately 20 per cent of the Community budget while accounting for only 15 per cent of the Community's total GNP.

/ Mr. Jenkins

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Mr. Jenkins said that the collective mind of the Community had been shifted so far as the issue of agricultural prices was concerned but was only just beginning to focus on the problem of the budget. He was bound to say that the approach adopted by the UK to other Community issues in recent years had not helped her case on the budget. Mr. Jenkins said that he would like to offer a word of advice about the position of Italy. Italy, like the UK, was in deficit so far as the budget was concerned - although to a lesser extent than the UK - but the Italian deficit seemed to be more cyclical than structural and could cure itself within the next two or three years as a result of other factors. This meant that the same remedies might not apply to both countries and that it might be more advantageous to the UK to seek a separate solution rather than a joint UK/Italian remedy. The Prime Minister commented that to ask for a separate solution seemed to her to be a bad negotiating position.

Mr. Jenkins said that the other members of the Community were antipathetic to the consideration of the UK as a permanently less prosperous country. They were inclined to take the view that the UK's lack of prosperity was largely her own fault; and the argument that the payment of money across the exchanges, as a result of the budget structure, actually held back the UK's rate of growth was on the whole unpersuasive in the Community. It would be better to argue that the effect of Community policies on the UK should be looked at overall and for a significant period in the future, from which it would be evident that the UK was not being given a fair deal.

The Prime Minister said that she fully accepted that the UK could and should be wealthier: but the new Government would not be able to turn the economy round if they were saddled

/ with a drain

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with a drain of public expenditure resulting from the Community budget. She was still a little shocked that the basic facts should not be generally admitted.

The Prime Minister then referred briefly to the dispute between the Commission and the British Government over the order given to Harland and Wolff for a British Rail Ferry. The Prime Minister said that whatever excuses the UK was obliged to offer, Harland and Wolff would certainly get the order. Mr. Franklin asked Mr. Jenkins whether he would be willing to look into the matter with Commissioner Vouel or whether he thought it better that a British Minister should pursue it with the Commissioner. Mr. Jenkins said that he would certainly take the problem up himself but that the British Government could pursue it with Commissioner Vouel in parallel.

The Prime Minister then mentioned the Interest Relief Grant Scheme for offshore supplies. Mr. Jenkins said that he regretted that this matter had been taken up with the Government immediately after the Election: but the Commission had been reluctant to raise it during the Election campaign and Commissioner Vouel had been determined to put the problems on the desks of the last Government before it left office. The Prime Minister said that the Government was watching Mr. Davignon's activities over steel with some circumspection: they were apprehensive lest protectionism should enter the industrial sector as it had the agricultural. Mr. Jenkins assured the Prime Minister that Mr. Davignon did not have a protectionist attitude.

The Prime Minister asked Mr. Jenkins what the UK could do to give the Community evidence of its good intentions. Mr. Jenkins replied that much, but not everything, could be done by using the right words, as the Foreign and Commonwealth

/ Secretary had done

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Secretary had done during his first meeting with his European colleagues. More practically, energy was a field in which the UK had both the resources and the experience to make a positive and constructive contribution instead of dragging her feet as she had done in recent years. Secondly, he was convinced that the UK should agree to a settlement on fish; the last Government had been very close to one. The Prime Minister said that she took a very hard line on the fisheries issue. Fish had been declared a common resource just before the UK's entry into the Community despite, or because of, the fact that the UK had the lion's share of the Community's fishing waters and of the Community's fish. When Mr. Jenkins referred to the possibility that a 12-mile exclusive zone combined with a quota system up to a 50-mile limit might provide the basis for a settlement, the Prime Minister said that she was opposed to quotas which were difficult to monitor. There could be no question of allowing Spain to enter the Community unless a settlement had been reached on fish in advance.

Reverting to the subject of energy, Mr. Jenkins said that it was clear that the Economic Summit in Tokyo would be dominated by energy issues. The Prime Minister said that she found it hard to see what specific agreements on energy the Tokyo Summit could reach. She was concerned that the EEC, and the West as a whole, had never played all the cards which they held in order to exert pressure on OPEC. Co-ordinated research needed to be done on this so that the West was in possession of all the facts which could form a basis of her bargaining position. Europe's agricultural surpluses, which were a burden in some respects, could turn out to be an asset in the context of negotiations with OPEC. Mr. Tickell commented that the CIA had produced a study of this subject in 1976. Mr. Jenkins said that this whole subject would be very suitable for discussion after dinner in Strasbourg.

/ The Prime Minister

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The Prime Minister told Mr. Jenkins that the UK would need the help of her partners over Rhodesia. Mr. Jenkins said that the reaction to what Lord Carrington had said on this subject at his first meeting with the EEC Foreign Ministers had not been as negative as might have been expected. The other Governments of the Nine would inevitably take some time to adjust to the UK's change of policy but the initial reactions of the French, the Danes and the Luxembourgers had been mildly encouraging. In response to Mr. Jenkins' question, the Prime Minister confirmed that the British Government would not take this issue at a gallop: but the African attitudes were hardening and this caused her concern. Unless Bishop Muzorewa and Mr. Sithole were given some encouragement to make the internal settlement work, the consequences for Southern Africa could be very serious. The UK no longer had any basis for maintaining the illegality of Rhodesia's situation and would need constructive help from others. The Prime Minister said that she was very firmly of the view that it was for the people inside Rhodesia to decide on the Government they wanted and not for those outside the country who wished to settle the issue with guns.

Concluding the discussion, Mr. Jenkins expressed the hope that the Prime Minister would find time to pay another visit to Brussels; the Prime Minister said that she would certainly hope to do so.

The discussion ended at 1315.

Bym.

21 May 1979

CONFIDENTIAL

Prime Minister: You may be questioned about this at your Manifesto Launch tomorrow morning. I attach a defensive brief prepared by the Treasury. *But* 17/5

Guardian, 17 May

EEC members share profit at Britain's expense

By Julie Langdon

A confidential assessment of the economic effects of Britain's membership of the Common Market reveals that every other member country of the EEC is profiting at Britain's expense.

The other eight countries have all made substantial financial gains as a direct result of Britain joining the Community, according to the official analysis circulating in Whitehall and made available to the new Government.

The size and scale of the cost to Britain is spelt out by the Government document, which

Power to the people, page 2.
French Euro-vote, page 7.

shows that the gains made by Britain's partners are equivalent to between half and one per cent of the UK's Gross Domestic Product, which last year was about £140 billions.

The balance sheet of benefits going to the other countries shows a total net gain from British membership of £1,343 millions. The figures show that each country has made net benefits not only from the controversial Community budget, but also from agriculture, fisheries, and trade, which have been of direct assistance to each of their individual balance of trade figures.

Alone amongst its partners, Britain has lost out on every score except trade—where the impact of joining the Community is shown to have been of little financial consequence. The benefit of more free trade for Britain through joining the Community is in any case

shown to be dwarfed by the impact of Britain's massive net contribution to the EEC budget.

According to Whitehall's figures, Britain not only became the largest net contributor to the budget last year—making a contribution three times that of Germany—but can expect her net contributions to increase to £1,200 millions next year. The transitional arrangements for Britain's accession to Europe end next year, and the figures show that without this degree of preferential treatment, Britain would last year have been paying more than twice as much as any other member state, and almost seven times more than Germany.

It is information of this kind which no doubt led Sir Geoffrey Howe, the Chancellor, to express his astonishment at the 1978 budget figures in Brussels this week, and to describe the scale of Britain's commitment as extraordinary.

Since the Conservative Government has had a chance to look at the Common Market budget books, there has been a marked toughening in their public comments about Europe—in distinct contrast to their attitude when in opposition.

The analysis of Britain's position does not, however, attribute the escalating cost of British membership solely to the phasing out of the transitional arrangements. It points out that the EEC's financial arrangements operate to the disadvantage of open economies with trade outside the Community, and that because over 70 per cent of the EEC budget goes on the costly Com-

Turn to back page, col. 8

Market profits at UK's expense

Continued from page one
mon Agricultural Policy (CAP) Britain suffers additionally as an importer of food.

A further danger for the future which has been pointed out to the Government is the impact of the common fisheries policy—an issue of continued haggling between Britain and her partners, because nearly two-thirds of all fish caught in European waters are within British fishery limits.

According to British estimations, the other members of EEC could stand to gain a direct saving in their balance of payments of £150 millions because of Britain's participation in the common fisheries policy.

There is understandable widespread concern among British officials, both in London and Brussels, at the operation of the Common Market in such a way as to make Britain the principal paymaster when it is amongst the poorest countries in Europe.

British officials want to preserve free trade within Europe, but studies have been carried out on the likely effect of a reduced role for Britain in Europe. The consequence of stopping Britain's contribution to the budget and of ending Britain's participation in the Community agricultural policy have both been considered.

In some quarters of Whitehall it has also been argued recently that Britain should back up its demands for changes in the financial structure of the Community with a threat to withhold contributions to next year's budget. But this last-ditch move is unlikely to find much favour with Mrs Thatcher's administration.

P.A.
B.H.
17/5

2:17k/79

GUARDIAN ARTICLE HEADED "EEC MEMBERS SHARE PROFIT AT
BRITAIN'S EXPENSE"

I have seen the article in yesterday's Guardian. Its general tenor, as I recall it, was that the budgetary resource costs to the UK of membership of the EEC are at present inequitable, and require adjustment. This is what both I and the Chancellor have been saying to our EEC partners. We regard it, not merely as a problem for this country but for the Community as a whole. Unless and until it is put right, the Community will be unbalanced and, to some of its members, unfair, and this can't be good for the Community's future progress. That is why we are actively discussing with our fellow-members and with the Commission, how, and how soon, a better balance can be achieved for the future. But we shall, as I have repeatedly said, do this as committed Europeans prepared to play our full part in the Community.

Was this report based on a leaked document?

The topics covered in the article are the subject of constant study and writing of papers, both here and in other countries and in Brussels. I am much more concerned with the substance of the discussion than with any particular paper about it. In any case I am not in a position to know as yet whether there has been a leak. Remember this work was carried on under the previous Government as well as my own.

Are the figures accurate?

Some of the figures are from published sources. Others have appeared in various versions and magnitudes, depending on the assumptions taken by the particular writer. But broadly speaking they are of the right

order of magnitude.

Do you intend to enquire into the source of this particular report?

My prime interest is in substance. In substance the report is merely one expression of a problem which I and the Chancellor have already put, in our own terms, to our Community colleagues, and on which we are urgently asking for their understanding and cooperation.

Background Note

There are not many figures in the Guardian article. Those which do appear are similar to those in a Treasury paper. The line of argument in the Guardian closely parallels that in the paper. But there are a lot of figures and arguments in the Treasury paper which have not been used and many of the figures and arguments could have been presented in a much more unfriendly way than in the Guardian. It cannot be regarded as certain that the reporter has had the document, but it does seem likely that, as a minimum, she has been briefed by someone with access to it.

NEWS SERVICE

ans.

Release time: 20.00Hours/THURSDAY, 17th May, 1979.

824/79

Extract from a speech by the Rt Hon Edward HEATH, MBE, MP, (Bexley-Sidcup) at a meeting in the Burnham Grammar School, Hogfair Lane, Burnham, near Slough, on Thursday, 17th May, 1979.

Over the next three weeks the world will watch Europe making history. The continent which produced the founders of democracy will be embarking on a new chapter in its progress.

This campaign is about the future of Europe. It is not a re-run of the Referendum campaign in 1975. It is not about whether we stay in Europe or whether we quit our partners. It is a new step forward in how we run our affairs in Europe. As voters, as a Party, as a country, we must not allow this election to slip through our hands. We must give this move forward the best possible send-off.

As Europeans we are used to taking the lead in world affairs. This will be another first for Europe. For the first time in history the citizens of nine individual nations will all be going to the polls together to elect representatives by direct universal suffrage to one Assembly.

Between the 7th and 10th of June one hundred and eighty million men and women in Europe will go to vote at the same time. In Belgium, in the Federal Republic of Germany, in Denmark, in France, in Ireland, in Italy, in the Grand Duchy of Luxembourg, in the Netherlands and in the United Kingdom people will be voting for the same purpose. They will choose who will be their four hundred and ten representatives in the European Parliament for the next five years.

No one of my generation can fail to draw the contrast of forty years ago. In 1939 we were sliding helplessly into a conflict that tore Europe apart. Now forty years later we are about to elect a Parliament that will represent our 'community of interests'.

But this is a time to look forward, not backwards. It is a time to look at how we can develop and improve, not to cry over disappointment or missed opportunities. The elections of 7 June must give to the creation of Europe a new impetus and a new momentum. They can only do so if the peoples of Europe turn out and vote for our future in Europe. That is what I and my colleagues will encourage people to do over the coming weeks.

The new Europe didn't just happen. It was created by men of vision, dedication and determination. It won't just make progress. That progress will demand the same qualities from us and from the voters. These elections can be a landmark in the march forward towards a united Europe. Let us make sure that we are successful.

End

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PRIME MINISTER

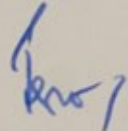
Community Affairs

You may wish to refer briefly to the useful talks with Chancellor Schmidt and his colleagues on 11th-12th May.

2. The Foreign and Commonwealth Secretary has already reported to OD on the informal Foreign Ministers Meeting in Cahors on 12th-13th May but, in his absence, the Lord Privy Seal may wish to inform the Cabinet. The Minister of Agriculture might report similarly on the informal Agriculture Ministers Meeting on 14th-15th May.

3. The Chancellor of the Exchequer should be invited to report on the outcome of the 14th May Finance Council, with particular reference to the discussion on convergence and budget transfers.

4. Neither the 15th May Social Affairs Council nor the 17th May Energy Council would seem to call for discussion in Cabinet.


John Hunt

16th May 1979

MAFF have no comments.

BGC content. NBpm

PA

22/5.

Y/F when

* MAFF (iv when
copies are being sent)
Comments. Gue

Papers removed from file

Date



Foreign and Commonwealth Office

London SW1A 2AH

15 May 1979

Dear Bryan

THE COMMUNITY BUDGET AND THE CAP

The Lord Privy Seal has asked me to let you have a short note expanding on what he said at the meeting on 11 May between the Prime Minister and Chancellor Schmidt about the latter's thesis that our Budget problem could be taken care of by adhering to the 1% VAT ceiling.

First, the Germans must be assuming that the cost of the c.a.p. will continue to grow fast if they expect the ceiling to be reached in 1981. We would hope that by then, even if not in 1980, the effect of a price freeze on products in surplus and other measures might contain the cost of the c.a.p. and that it might even start to be reduced thereafter (though forecasting is very difficult because we cannot predict movements of world prices). Unless other expenditure grew fast, 1981 might therefore be rather early for the ceiling to be reached. Even 1981 is too late for us.

More important, simply to contain the cost of the c.a.p. by sticking rigidly to the 1% VAT ceiling has no charm for us as far as our net contribution is concerned. It would preclude other expenditure from which the UK might get a major net gain. The c.a.p. would continue to eat up 75% of the budget. And since the Germans are totally negative about changing the "own resources" system of contributions, we should be left with a net contribution well above the £1,000 million or more we foresee for 1980.

X } So the German Chancellor's idea does not help us. The Lord Privy Seal thinks that we should instruct Sir Oliver Wright to explain our views to the Chancellor's Office and the German Ministries of Finance and Foreign Affairs.

Yours truly
Michael

M J Richardson
Private Secretary to the
Lord Privy Seal
(Sir Ian Gilmour)

B G Cartledge Esq
10 Downing Street
London SW1

16 MAY 1979



CONFIDENTIAL

FILE

VLB
European Policy



10 DOWNING STREET

BF 18/5/79

From the Private Secretary

MR. VILE
CABINET OFFICE

European Issues

The Prime Minister has seen your ^{11.5.79} minute (A09535) to me, in response to her request for advice on the protocols to the Bonn and Barcelona Conventions.

The Prime Minister has noted that U.K. reserves on Community accession to the Bonn Agreement and the Barcelona Second Protocol have derived from the previous Government's opposition to the extension of Community competence which accession might entail. The Prime Minister considers that, as Sir John Hunt suggests, the Ministerial Sub-Committee on European Questions should review the U.K. position on this and other similar questions of Community competence before the June Environment Council. I should be grateful if you would arrange for this to be done. The Prime Minister has made the general comment that she sees no reason for being difficult about Community accession to Conventions to which the U.K. is herself a party.

The Prime Minister has noted from paragraph 6 of Sir John Hunt's minute that, according to the Commission, the U.K. Interest Relief Grant Scheme is contrary to the E.E.C. Treaty because it discriminates against offshore equipment suppliers in the other Member States. The Prime Minister would be grateful for advice on this question and on how it is proposed the U.K. should react to the Commission's ruling. I should be grateful if advice on this point could reach me by 18 May, so that the Prime Minister is aware of it when she meets Mr. Roy Jenkins on 21 May.

As you know, the question of the Bonn Agreement and the Barcelona Protocol was raised briefly in OD this morning. The Secretary of State for Trade made it clear that he wished to comment on this issue from the point of view of the interests of the U.K. shipping industry.

B. G. CARTLEDGE

14 May 1979

CONFIDENTIAL

① Agree para 5.

② See notes on file
being difficult
about Community

CONFIDENTIAL

Ref. A09535

MR. CARTLEDGE

Prime Minister

You raised this question
on Sir John Hunt's brief
below. Agree para. 5?
But
11/r

accession to
conventions
when we ourselves
are a party to

European Issues

In your letter of 8th May conveying the Prime Minister's comments on Sir John Hunt's minute of 4th May and the accompanying paper you said that the Prime Minister had asked for advice on the protocols to the Bonn and Barcelona Conventions. The position is as follows.

2. The United Kingdom is at present alone in withholding agreement to accession by the Community to three international instruments dealing with marine pollution. They are:

- (i) The 1969 Bonn Agreement for Co-operation in dealing with Pollution of the North Sea by Oil.
- (ii) The Second Protocol to the Barcelona Convention for the Protection of the Mediterranean Sea against Pollution.
- (iii) The Oslo Dumping Convention (for the North Sea/North East Atlantic).

3. The Bonn and Barcelona Agreements are concerned essentially with measures to remedy the effects of pollution. They deal with research and exchange of information, cleaning up arrangements after an incident and reporting of oil slicks. The Oslo Convention provides for control and licensing of dumping at sea by ships, aircraft and oil platforms. The United Kingdom is a party to the Bonn Agreement and the Oslo Convention. The Community at present has observer status for these agreements, though it is a party to the basic Barcelona Convention and its First Protocol.

4. Community accession to the Bonn agreement and Barcelona Second Protocol was proposed by the Commission to give effect to the April 1978 European Council conclusion that the prevention and combating of marine pollution should be a major Community objective. The proposal to accede to the Oslo Convention likewise flowed from a Council request (to which the United Kingdom assented) for action against dumping at sea. The United Kingdom has maintained a reserve on Community accession to the first two Agreements since May 1978

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and on the third since the end of 1977. In all three cases accession is supported by all other member states. We have no difficulties on any aspects of substance. Our reserves have been because the previous Ministers concerned felt that accession might entail an extension of Community competence. This risk however is largely theoretical and could probably be contained by a suitable entry in the Council minutes.

5. The issue will come up again soon, probably at a June Environment Council. The Prime Minister may wish to suggest that the Ministerial Sub-Committee on European Questions should review the United Kingdom position on this and other similar competence questions.

6. The Prime Minister might also wish to be aware of a development on North Sea oil which has occurred since the submission of Sir John Hunt's minute. In a letter dated 2nd May the Commission notified us that the United Kingdom Interest Relief Grant scheme (IRG) is contrary to the EEC Treaty because it discriminates against offshore equipment suppliers in the other member states. The timing of this decision was politically inept but it was not unexpected. The IRG scheme has been under scrutiny by the Commission since 1976 and its legal validity under the Treaty has long been in doubt. We have two months to comply with the Commission's decision.

7. Three other aspects of our North Sea oil policy are being scrutinised by the Commission: the requirement for oil and gas to be landed in the United Kingdom, the operations of the Offshore Supplies Office, and the rule that United Kingdom Continental Shelf licensees must have their central management and control in the United Kingdom. The Commission has shown considerable understanding of the political sensitivity of North Sea oil in the United Kingdom and has made genuine efforts to find a mutually acceptable solution to these problems. Mr. Roy Jenkins has in the past discussed it with the Prime Minister's predecessor. It will be desirable for the new Secretary of State for Energy to follow this up with the competent Commissioner. These are all issues which the Ministerial Sub-Committee will need to consider during the next few weeks.

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8. I confirm that arrangements are being made to ensure that those directly concerned with the other issues on which the Prime Minister has commented are made aware of her views.

MJV.

(M. J. Vile)

11th May, 1979



111 MAY 1953



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PRIME MINISTER

Community Affairs

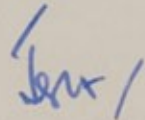
The Foreign Affairs and Agriculture Councils met on 8th May; the United Kingdom was not represented at Ministerial level for obvious practical reasons. The Foreign Affairs Council was mainly concerned to settle the outstanding elements in the Community's line for the 24th-25th May final negotiating conference on the renewal of the Lome Convention. Despite progress on some questions in the Council a number of issues still remain to be resolved, including United Kingdom reserves on minerals and Stabex products. It is hoped to clear these questions interdepartmentally without collective Ministerial discussion. The Agriculture Council took no decisions which merit the attention of Cabinet.

2. The following events will take place before next week's Cabinet:-
- | | |
|---------------|--|
| 10th-12th May | Visit of Chancellor Schmidt and other German Ministers |
| 12th-13th May | Informal Foreign Ministers Meeting (mainly devoted to political co-operation questions, but may touch on the new European Development Fund for the renewed Lome Convention). |
| 14th May | Finance Council (at which the Chancellor will start pressing the case for a reduction in our net contribution to the Community budget). |
| 14th-15th May | Informal Agriculture Ministers meeting (which will discuss the 1979-80 price fixing arrangements). |
| 15th May | Social Affairs Council |
| 17th May | Energy Council |

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3. The Foreign and Commonwealth Secretary might be invited to report on the approach he proposes to adopt at next week's informal Foreign Ministers meeting, which will provide the first opportunity for him to bring home to his colleagues both Britain's commitment to the Community and our determination to pursue our convergence and CAP objectives.

4. Similarly the Chancellor of the Exchequer and the Minister of Agriculture might be invited to outline their approaches to, respectively, next week's Finance Council and informal Agriculture Ministers meeting, though I have explained in a separate note why this is not a suitable item for taking substantive decisions where papers are required.


John Hunt

9th May 1979

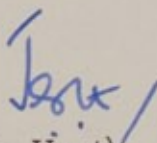
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PRIME MINISTER

Cabinet: Foreign Affairs and Community Affairs

The Foreign Affairs item is, as you know, normally included on all Cabinet agendas in order to give the Foreign Secretary an opportunity of keeping his colleagues up to date with important developments. This is essentially a "for information" item and I will not normally provide you with a brief for it. If the Foreign Secretary is seeking decisions he will normally circulate a paper either to the Cabinet or to the Defence and Oversea Policy Committee.

2. The same principle ought to apply to the Community Affairs item, i.e. it is a "for information" item. Ministers other than the Foreign Secretary are however involved with European matters and there is always the risk that some Minister will try to bounce through a decision on something which has not been properly discussed with the Foreign Secretary and on which the Cabinet has no paper before them. I am sure you will want to resist any such tendency. We normally provide you with a short brief on the Community Affairs item so that you may have some idea of what is likely to come up.


(John Hunt)

9th May, 1979

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NOTE FOR THE RECORD

Extract from :—

CONVERSATION BETWEEN THE PRIME MINISTER, THE FOREIGN AND
COMMONWEALTH SECRETARY AND THE LORD PRIVY SEAL IN 10 DOWNING STREET
ON 8 MAY 1979 AT 1230

EEC Budget

The Prime Minister said that the present situation was unfair, unreasonable and unjust. It was essential to make progress towards changing it before the European Elections. The calculation of budgetary contributions should in future be directly related to a country's GDP.



10 DOWNING STREET

From the Private Secretary

8 May 1979

BF 16/5/79

Euro PD
HJKSEUROPEAN ISSUES

The Prime Minister has seen and considered Sir John Hunt's minute (A09460) of 4 May about European issues, covering a paper prepared by officials for incoming Ministers on main current Community issues, May to July. The Prime Minister has made the following comments on these papers:-

- (i) On EMS (paragraph 3(a)), the Prime Minister has expressed doubt as to whether the concept of a zone of monetary stability in Europe can be achieved by a currency system. She does not believe that this would be possible unless all the underlying policies of each country are right.
- (ii) On paragraph 3(b), the Prime Minister has said that she would be grateful for advice on the protocols to the Bonn and Barcelona Conventions. I should be grateful if you would arrange for this to be prepared as soon as possible.
- (iii) The Prime Minister has expressed agreement with paragraphs 4 and 5 of Sir John Hunt's minute.
- (iv) The Prime Minister has raised the general question of whether it should not be possible to go right back to the Treaty of Rome itself. She has commented that fish should never have been made a common resource: this is quite wrong and the UK is unlikely to get a satisfactory solution unless it is changed.
- (v) On paragraph 16 of the official paper, concerning the CFP, the Prime Minister has commented that she would like to have a 50-mile exclusive zone, which is much simpler than having to monitor two zones of 12 and 50 miles respectively.

/ (vi)

HJKS

W.R.

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- 2 -

- (vi) On paragraph 26 of the official paper, the Prime Minister has commented that she would be reluctant to attend the signature of the Greek Treaty of Accession in Athens on 28 May.

I am not copying this letter elsewhere but I should be grateful if you would ensure that those directly concerned with the issues on which the Prime Minister has commented are made aware of her views.

B. G. CARTLEDGE

M.J. Vile, Esq.,
Cabinet Office.

GRPS 300

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TO IMMEDIATE FCO

TELEGRAM NUMBER 790F 7 MAY

AND TO NIO BELFAST

INFO ROUTINE UKREP BRUSSELS, WASHINGTON AND BIS NW YORK

INFO SAVING ALL OTHER EEC POSTS

Prime Minister

You are seeing Mr. Lynch
for a brief working call
on 10 May.

SM
8/5

BRITAIN AND THE EEC

1. TODAY'S DUBLIN NEWSPAPERS ALL CARRY FRONT-PAGE REPORTS OF REMARKS WHICH THE TAOISEACH MADE TO NEWSMEN IN CORK ON 6 MAY AT A PRESS CONFERENCE TO INTRODUCE FIANNA FAIL CANDIDATES FOR THE FORTHCOMING EUROPEAN ELECTIONS. THERE IS NO TEXT OF MR LYNCH'S REMARKS.

2. HE IS REPORTED TO HAVE SAID THAT WITH HINDSIGHT IT APPEARED TO THE IRISH GOVERNMENT THAT GENERAL DE GAULLE WAS RIGHT IN 1961 IN VETOING BRITISH MEMBERSHIP OF THE COMMUNITY BECAUSE OF DOUBTS ABOUT THEIR DEDICATION TO THE EUROPEAN IDEAL. HE THOUGHT THAT IT WAS TIME THAT THE BRITISH GOVERNMENT DECIDED WHETHER OR NOT THEY WISHED TO MAINTAIN THE IDEA OF EUROPEAN UNITY AND HOPED THAT THE NEW GOVERNMENT WOULD SHOW A MORE OUTGOING ATTITUDE TO THE COMMUNITY THAN HAD BEEN THE CASE IN THE LAST TWO YEARS. BRITISH COMPLAINTS ABOUT THEIR CONTRIBUTION TO THE EUROPEAN BUDGET WERE UNREALISTIC. THE BRITISH PRESENCE IN THE NORTH WAS COSTING THEM £1,000, MILLION A YEAR. IN VIEW OF THIS THEY APPEARED TO BE MAKING A LOT OF NOISE ABOUT THE £600 MILLION WHICH THEY CLAIMED THEY WOULD BE PAYING TO THE COMMUNITY IN 1980. CLAIMS THAT THEY WILL SOON BE THE GREATEST NET CONTRIBUTORS TO THE COMMUNITY BUDGET IGNORED THE BENEFITS OF MEMBERSHIP TO BRITAIN PARTICULARLY THOSE ACCRUING FROM MCAS. BECAUSE OF HER INSISTENCE ON MAINTAINING A CHEAP FOOD POLICY BRITAIN WAS BENEFITTING TO THE EXTENT OF £1 MILLION A DAY BEING PAID BY OTHER EEC COUNTRIES EXPORTING TO BRITAIN. IN GENERAL THE BRITISH HAD BEEN DRAGGING THEIR FEET IN RELATION TO MANY ASPECTS OF THE COMMUNITY, PARTICULARLY THE CAP. THIS WAS NOT A FULLY REALISTIC ATTITUDE AS COMMUNITY MEMBERSHIP INVOLVED BOTH BENEFITS AND OBLIGATIONS.

FCO PLEASE PASS SAVING ALL EEC POSTS

STAPLES

[REPEATED AS REQUESTED]

FCO/WHITEHALL DISTRIBUTION

RID

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Ref: A09460

PRIME MINISTER

European Issues

The new Government faces both a challenge and an opportunity in Europe - a challenge because it has a number of difficult negotiating objectives (not all that dissimilar from those of its predecessors) in respect of our contribution to the EEC Budget, a freeze on farm prices, etc.: and an opportunity because a greater commitment to Europe expressed publicly and in direct contact with our partners will ensure a more sympathetic hearing.

2. The attached paper sets out the main issues which will need early discussion and on which fuller Departmental briefing is of course being submitted. On agricultural prices for 1979-80 there will be meetings of the Agriculture Council probably coming to a crunch at the end of June; and "Convergence", which from our point of view means our net contribution to the Community Budget, will be a key subject for the European Council on 21st-22nd June. The Government will therefore need to take an early decision on how it is going to play its hand.

3. Tactics will be very important. There are a number of areas where we could show a more forthcoming attitude without any detriment to our substantive negotiating objectives. For example -

(a) EMS: even if the new Government does not want to take an early decision on joining the exchange rate mechanism, we can deposit 20 per cent of our reserves against the issue of ECUs. This would cost nothing in practical terms but would be an important gesture of support for the EMS and would be confirmation of an open-minded approach to the concept of a zone of monetary stability in Europe consistent with the mainstream of Community development.

(b) There are a number of issues which are not intrinsically of great importance but where the United Kingdom is blocking otherwise unanimous Community decisions simply because they imply an extension of the Community's role. These include a number of maritime and environment matters, such as signature by the Community of Protocols to the Bonn and Barcelona Conventions.

Adrian Plunkett

(I don't - whether this can be achieved by a currency system - indeed it can - unless all the words up to 'institutions' are right. on)

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(c) We are in dispute within the Community on certain state aid questions which the new Government's attitude to subsidies would make it easier to resolve.

(d) Energy in particular is an area where our favourable situation leaves room for us to play a more co-operative role within the Community without any sacrifice of our vital interests in relation to North Sea oil.

4. The fact that, in the last two or three years, the mood of the Community has changed and there is less emphasis on supranationalism, and a greater readiness to accommodate different national requirements, makes it easier for us to move on all these fronts.

5. But it would be wrong to do so without regard to the value of such moves in relation to our major objectives on the CAP and the Budget. The last thing we should do is to give the impression that the United Kingdom is now a soft touch, or to arouse exaggerated expectations. On the fisheries issue, for example, we have important interests to defend, although there are strong arguments for seeking an early settlement to safeguard fish stocks and before Spanish entry to the Community. The timing of moves on those matters where we could be forthcoming will need very careful consideration in relation to the sort of response we are getting from other member Governments on issues of crucial importance to us.

6. Ministers may feel however that there is a strong case for an early statement in Parliament and possibly in the Council, which would set a new tone from the outset and establish a momentum towards solving problems rather than digging into opposing trenches. This could be based on Chapter 6 of the Manifesto showing a genuine wish to co-operate with our partners combined with firmness on matters which are of real importance to us.

7. Copies of the attached paper, but not of this covering minute, are being given to the Foreign Secretary and other Ministers concerned with European questions.

John
(John Hunt)

If it's not possible to go right back to the treaty itself. Fish should never have been made common resource. It is quite wrong and we are unlikely to get a satisfactory solution unless it is brought out

EEC : SURVEY OF MAIN CURRENT COMMUNITY ISSUES : MAY TO JULY

INTRODUCTION

1. This paper sets out the major issues which will be discussed in the Community during the summer and on which Ministers will need to take positions. The issues will be dealt with in more detail in departmental papers. Ministers may however find a tour d'horizon useful since effective negotiation in the Community requires a coherent policy across the whole range of Community questions. The policy priorities need to be set clearly and pursued consistently; and negotiating capital saved for issues which are of real importance to British interests.

2. Our main concerns are the related problems of the UK contribution to the Community Budget and the excessive cost of the Common Agricultural Policy. Both will be live issues in the next two months. The Commission have proposed a price freeze for 1979/80 as the beginning of an attempt to eliminate agricultural surpluses and this awaits decision in the Agricultural Council (paragraphs 12 to 15 below). The European Council on 21/22 June will as usual be a focal point for discussion of the main Community and world issues. There will be continued discussion of the impact of the Community Budget on the economic performance of individual Member States (paragraphs 6 and 7 below). As this will be the first European Council after the general elections in the UK and Italy and probably with a new Government in Belgium as well, it could be an important opportunity for a new look at this problem, though a single meeting is unlikely to prove a decisive turning point.

3. The EMS (paragraphs 9 to 11 below) and the Common Fisheries Policy (paragraphs 16 to 18) will also require decisions in the period. In other areas of less importance (eg certain environmental and maritime proposals - see paragraph 22 below) there are outstanding UK reservations which are preventing agreement.

4. The Community as a whole has other preoccupations: the general economic situation (likely to be discussed at the European Council in the context of preparations for the Tokyo Summit on 28/29 June), enlargement (paragraphs 26-30)

below), and the Direct Elections to the European Assembly on 7-10 June: the Community will be running a short campaign to give these elections publicity and other Member States will watch with close interest the line taken by the Government and its supporters in the campaign.

5. Against this background, and the forthcoming programme of Community meetings requiring Ministerial attendance (at Annex), the paragraphs which follow outline the state of play on the main problems.

THE COMMUNITY BUDGET AND CONVERGENCE

6. The latest Commission figures show that, on the interpretation of the figures which we favour, our net contribution in 1978 was £747 million - the largest net contribution to the Budget. (The figures depend on the treatment of monetary compensatory amounts (MCAs) on which there is an unresolved dispute; but even on the basis of the least favourable interpretation the UK emerges as the second largest net contributor. The problem can only get worse as long as 75 per cent of the Budget goes on the CAP. In our view the less prosperous Members of the Community should not be significant net contributors to the Budget. The immediate UK interest is to secure acceptance of the principle that net resource transfers resulting from Community policies, taken as a whole, should contribute to convergence by being properly related to the relative economic strengths of Member States. Once this principle is secured, and its application to the UK is accepted, there are a variety of ways in which the alleviation of the UK budgetary burden can be sought.

7. Though some progress has been made in getting the rest of the Community to accept that a problem exists, there is still great resistance to doing anything about it from all except the Italians, who have been useful allies. The task for the UK at the June European Council will be to get agreement that a problem exists, that a specific solution is required in terms as close as possible to those in paragraph 6 above and that a mandate be given to the Commission to make proposals for remedial action in time for decisions at the December European Council. Before then, meetings of the Finance and Foreign Affairs Councils will provide opportunities for discussion of this question and for a statement of UK policy.

EUROPEAN MONETARY SYSTEM

8. This is a major issue in its own right which Ministers will wish to consider carefully. The EMS started on 13 March 1979. The UK does not participate in the exchange rate and intervention mechanism but does participate in other aspects, notably the introduction and development of the ECU (the European Currency Unit, a basket unit comprising weighted proportions of all Community currencies), the expansion of the Community's medium term credit facility and the long term goal (scheduled for two years after the start of the system) of the creation of a European Monetary Fund.

9. An early question the UK faces is whether to deposit 20 per cent of our gold and dollar reserves with the European Monetary Co-operation Fund in return for which we shall receive ECUs. We can do this at any time, but if an affirmative decision is taken there would be political advantage in making these deposits at the earliest moment since this action would help to confirm that the UK does have a commitment to the EMS even though we are not participating in the exchange rate mechanism.

10. The EMS will be discussed at the Finance Councils on 14 May, 18 June and 16 July. In September 1979 there will be a review of the functioning of the divergence indicator, an aspect of the EMS which has been considered to be of particular importance to the UK in that it is a way of putting pressure on strong currencies corresponding to the pressure weaker currencies experience in using reserves to maintain their levels within the margins. The review provides a natural occasion for re-examination of the question of UK participation in all aspects of the EMS.

COMMON AGRICULTURAL POLICY (CAP)

11. The immediate issue for Ministers will be the Government's attitude towards the Commission's proposal for a price freeze for 1979/80. Negotiations have been suspended during the United Kingdom Election. In the meantime various changes have been made in "green currency" rates, including a 5 per cent devaluation of the Green Pound.

12. Currency fluctuations and the measures taken to operate the CAP in spite of them - green rates and monetary compensatory amounts - mean that prices in national currencies have diverged markedly from the agreed 'common' price. German prices, the highest, are now some 30 per cent higher than UK prices, the lowest. High common prices, exacerbated by even higher German prices, inevitably produce surpluses and increase the United Kingdom contribution to the budget and the resource costs of importing food. The United Kingdom's interest, as far as the CAP itself is concerned, is to reduce the cost of the CAP and to eliminate structural surpluses.

13. The United Kingdom can secure a price freeze if the Commission stands firm on its proposals and the United Kingdom refuses to accept any increase, since the Council may change the Commission's proposals only by unanimity. If the Commission were to yield to pressure from other member states for price increases, and change its proposals, the Council may then accept them by a qualified majority and the United Kingdom might have to invoke the Luxembourg Compromise to assert a right of veto in order to enforce a freeze. The freeze is not generally popular. Italy still supports it in a rather half hearted manner but may well allow itself to be bought off. The countries with positive MCAs, Benelux and Germany, are determined not to agree to a fall in their agricultural prices in their own currencies. They therefore insist that only a price increase will enable them to begin to dismantle their MCAs. Denmark and Ireland who effectively have no MCA might accept a freeze on products in surplus (milk and sugar - perhaps cereals). France is anxious for some price increase, not least as a method of securing some reduction in positive MCAs.

14. The next Agriculture Council is scheduled for 8 May (but not to deal with prices). There is to be an informal Council meeting from 14-15 May at Perpignan, and the next Council is fixed for 18 June. It is possible that additional Council meetings will be added in order to speed up the price fixing. Meanwhile, prices remain fixed at last year's level.

COMMON FISHERIES POLICY (CFP)

15. The immediate problem is on conservation measures. HMG must decide whether to implement certain conservation measures which have already been announced in Parliament as coming into effect on 1 June but which may well

be challenged in the Community. Conservation is also likely to be a prominent aspect of the next Fisheries Council which will probably be during June. Three UK national conservation measures taken in 1978 were challenged by the Commission and are now before the European Court and generally the UK's freedom of manoeuvre on conservation is narrowing.

16. On the general internal regime for a modified Common Fisheries Policy there have been long and inconclusive discussions. The UK's principal requirements in the areas in dispute have been: virtually exclusive access for UK fishermen within 12 miles of the entire UK coastline; preferential access for UK fishermen in wide areas beyond 12 miles; an adequate conservation regime including the residual right to take national measures; a greater percentage allocation of catch quotas than is envisaged under the present Commission proposal; and a preferential share of any growth in fish stocks. The question of preferential access is the most difficult. The Eight and the Commission argue that the UK demands, particularly beyond 12 miles, are in conflict with the principle of equal access accepted by the UK (with temporary derogations) in the Treaty of Accession. The Community has been waiting for a general election in the UK and may now hope for a new approach from HMG.

1 want - 50 mile exclusive control zone 12 miles from UK coast

it was a bad treaty provision raised with view to us joining!

17. The Community's external fisheries regime is unlikely to present critical problems in the period. Annual arrangements on reciprocal fishing access have been concluded for 1979 with the other countries concerned, notably the Faroes, Norway, Sweden and Spain. However, the UK has withheld its agreement to the signature of longer term framework agreements with third countries pending progress on the internal regime. The Government will need to decide whether to maintain these reserves and more generally the extent to which parts of the CFP package should be linked.

INDUSTRIAL, REGIONAL AND INTERNAL MARKET QUESTIONS

18. Attempts to set up a general Community industrial policy have been unsuccessful but the similarity of problems throughout the Community has led in particular sectors to a readiness to find some common policies. On steel, there is in operation a regime for trade between the Community and third countries. A draft Decision determining the conditions under which aids to the steel industry may be granted is opposed only by the UK and

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Italy and there will be pressure to agree to a steel aids decision before the summer . The Commission are pressing for the adoption of guidelines for a Community policy on textiles. For shipbuilding the Fourth Directive agreed in 1978 sets out the conditions under which aids can be granted . The Commission has raised difficulties over certain proposed aids to British Shipbuilders and Harland and Wolff , and has not approved a renewal of the Intervention Fund. It is also still considering whether the last Government's proposal for an Employment Development Aid is compatible with competition policy .

19 . The Community's funds for non-agricultural purposes are still small but there is an awareness of the imbalance in the pattern of Community spending. The Regional Development Fund has recently been increased to approximately £600 million for 1979 and may be further expanded in the context of enlargement. The Social Fund, which aims to alleviate unemployment by supporting training schemes, will dispose of some £500 million in 1979. On both these Funds, we receive a higher share (27 per cent of the Regional Fund and 20-35 per cent of the Social Fund) than our share of contributions. Proposals for concerted action to combat unemployment (such as an agreement on shorter working hours) have been discussed but there is little sign of early Community agreement. Other schemes are under discussion including a fund for industrial restructuring, a fund for transport infrastructure and a subsidised loan scheme for projects of Community interest. If these or other schemes are pursued we need to ensure that the criteria will benefit the United Kingdom eg by focussing on the United Kingdom's regional problems and the economic disadvantages of our peripheral location, ageing infrastructure and high concentration of declining industries .

20. Progress towards the completion of the common market through the elimination of non-tariff barriers has been slow but could be accelerated if there were a common political will to achieve results . The United Kingdom has stimulated proposals for progress towards a genuine common market in fields where United Kingdom industry is likely to prove competitive eg insurance and motor vehicle components; but has in general shown an aversion to "harmonisation" proposals (under Article 100 of the EEC Treaty) which have not always been justified in terms of their beneficial trade effects.

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21. There are a number of proposals in the environmental and maritime fields on which the United Kingdom has reserves, ^{also} because of their possible implications for the "competence" of the Community although they do not raise matters of significant practical importance for the United Kingdom. These include proposals on aircraft noise control, ship inspection, and Community Accession to the Bonn and Barcelona Marine Pollution Conventions.

EURATOM

22. A discrepancy exists between the extensive powers accorded to the Commission in certain areas of the Euratom Treaty and the limited role it actually plays in nuclear trade. European Court judgements have confirmed that the provisions of Chapter VI of the Treaty remain in force even though unused. The United Kingdom has argued that Chapter VI of the Treaty should be amended as provided for in the Treaty itself. We have also argued that responsibility for non-proliferation controls and conditions applied to nuclear trade within or outside the Community should remain in the hands of Member States. French views on these points are similar and they have been taking the lead. Opposition can be expected, particularly from some of the smaller Members. Discussions on non-proliferation is expected to begin in political co-operation in May. Commission proposals relating to Chapter VI of the Treaty itself are also expected soon. Discussion will also continue of a mandate for the Commission to negotiate a safeguards agreement which will enable deliveries of Australian uranium to be made to the Community; our own bilateral agreement with the Australians will also need to be authorised by the Commission.

ENERGY

23. The Community has had great difficulty in moving towards its consistently stated objective of a common energy policy despite the pressures of a turbulent world energy situation. The significantly different energy endowments and different economic strengths and weaknesses have made agreement very difficult. Our relatively strong energy situation gives us something potentially to contribute; others would welcome a lead, but up to now we have shown greater concern to avoid encroachments on our national competence. At the last meeting of the Council of Ministers (Energy) on 27 March, the main emphasis was put on the national energy programmes of Members States. The Community's role was seen as agreeing common objectives, for example on reduced dependence on imported oil; comparing national energy programmes and their adequacy to meet these objectives; and considering whether there are any gaps

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which might usefully be filled by Community action . In line with this approach the Council commissioned a study of national policies; work on a long term outlook for world oil supply; and work on the development of Community coal policy (which could benefit the United Kingdom provided the terms are right). There is likely to be a short meeting of Energy Ministers on 17 May to consider the difficult oil supply situation resulting from the Iranian crisis, but the Council will return to the main questions of Community energy policy on 25 June and Ministers will wish to reassess the United Kingdom line .

24. An issue on which an early decision is likely to be required by Ministers is the handling of our Interest Relief Grant (IRG) Scheme for offshore supplies . We know that the Commission have already approved in principle a Decision requiring us to abolish the scheme although they have not yet formally communicated this to us (because of the General Election). If we do not comply with the Decision we would risk being taken to the European Court (where we would be likely to lose). The Commission have also queried other important aspects of our North Sea policies - the requirement under which all North Sea oil must be landed in the United Kingdom unless a specific exemption is granted, the policy of ensuring that British industry has "full and fair opportunity" to compete for North Sea business; and the requirement for United Kingdom Continental Shelf licences to have their central management and control in the United Kingdom. A further approach can be expected from the Commission after the Election.

ENLARGEMENT OF THE EUROPEAN COMMUNITY

25. Although there are still some questions to be resolved which are sensitive for the United Kingdom, the negotiations for the enlargement of the Community are generally proceeding satisfactorily.

26. The Greek negotiations have been virtually completed and signature of the accession Treaty is due to take place in Athens on 28 May. The Prime Minister and the Foreign and Commonwealth Secretary have been invited to attend. Greece is likely to enter the Community on 1 January 1981. There will be a transitional period of five years (seven in certain sectors, eg the free movement of labour).

27 . Negotiations with Portugal began formally in October 1978, but the main substance will not be tackled before the summer break and is unlikely to be settled before the end of 1980. This suggests signature of a Treaty in 1981 with accession perhaps on 1 January 1983. Since the Portuguese economy is weak a transitional period of ten years in some sectors may be necessary.

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28 . Spain with a population of 36 million presents larger problems than Greece (population 9.1 million) and Portugal (9.7 million). The Spanish market has so far been relatively protected from EEC industrial exports which can therefore expect to benefit from Spain's accession. On the other hand there will be problems for Community producers of Mediterranean agricultural products , and on textiles and fisheries . The negotiations with Spain opened formally in February with the substantive phase due to start after the summer break . Spain might enter the Community together with Portugal in 1983 with a transitional period of perhaps eight years.

29. Fears have been expressed on the effect which enlargement will have on the workings of the Community's Institutions. It will be more difficult to reach a consensus on certain matters with 12 members than ine; and the Community will have three new official languages . The risk of stratification of the Community into more and less prosperous members may be increased. The Committee of three Wise Men, including Mr Edmund Dell, is looking into some of these problems and is due to report in the Autumn.

EXTERNAL RELATIONS

30. The Community's external relations cover a wide field of economic activity , but give rise to few major immediate problems for the United Kingdom. Now that the GATT Multilateral Trade Negotiations (MTNs) have been initialled by the main participants (though not yet by the development countries), the main item on the Community's external agenda in the coming months concern the re-negotiation of the Lome Convention and the Community's policy at the May meeting of UNCTAD V. Also under active discussion are the Community's relations with Japan, Yugoslavia, Turkey, CMEA and China. Later in the year decisions will be needed on the post 1980 Generalised Scheme of Preferences (GSP) and on the lending commitments of the European Investment Bank (EIB) after 1981.

31. Under the present Lome Convention 57 African, Caribbean and Pacific (ACP) states (which include 27 Commonwealth countries) enjoy an advantageous aid and trade relationship with the Community. This expires in March 1980 and a successor agreement is currently under negotiation. The final Ministerial conference to settle its terms is due to be held in Brussels on 24/25 May. The

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last Foreign Affairs Council at which the Community's position can be discussed is that of 8 May, though it is possible that a further special Council will be needed for this purpose, perhaps just before the 24/25 May meeting. One important decision required will be the amount of EEC aid to be offered under the new Convention.

32. UNCTAD V opens at Manila on 5 May. The co-operation of Community positions was discussed at the March and April Foreign Affairs Councils and the 8 May Council is likely to approve detailed positions now under intensive discussion in Brussels.

33. Trade relations between the EEC and Japan are under some strain. Negotiations are in progress for a new preferential trade agreement with Yugoslavia. Turkey presents important and urgent economic problems for the Community. Negotiations with the Soviet-dominated CMEA to which the Eastern Europeans and the Soviet Union belong have arisen because the CMEA has insisted that there should be an EEC/CMEA trade agreement before CMEA members would be entitled to negotiate bilaterally with the Community. The Community agreement with China was signed in 1978 and has given rise to practical problems, including access for Chinese textile exports. There are also unresolved problems with Malta, Cyprus and Turkey over access for textiles.

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FORTHCOMING COMMUNITY MEETINGS REQUIRING THE ATTENDANCE OF MINISTERS
(To be revised)

May

8	Foreign Affairs Council (Brussels)
8	Agriculture Council (Brussels)
<u>12-13</u>	Foreign Ministers' informal meeting (Cahos)
<u>14-15</u>	Agricultural Ministers' informal meeting in Perpignan
14	Finance Ministers (Brussels)
15	Social Affairs Council (Brussels)
15 or 22 (subject to cancellation)	Research Council (Brussels)
17	Energy Council (Brussels)
22	Standing Committee on Employment (Brussels)
24-25	ACP/EEC Ministerial Negotiating Conference
28	Possible signature of Greek Accession Treaty in Athens
29 (provisional)	Foreign Affairs Council (Brussels)

June

12	Foreign Affairs Council (Luxembourg)
11-12	Agriculture Council (Luxembourg)
13	Transport Council (Luxembourg)
18	Agriculture Council (Luxembourg)
18	Finance Ministers (Luxembourg)
18	POCO Ministerial (Paris)
19	Environment Council (Luxembourg)
21-22	European Council (Strasbourg)
25	Energy Council (Luxembourg)

July

16	Finance Ministers (Brussels)
16-17 or 23-24	Agriculture Council (Brussels)
23-24	Foreign Affairs Council (Brussels)

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END

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