PREM 19/223

MT

PART 5

SECRET

Confidential Filing

Community Budget

EUROPEAN POLICY

Part 1: May 1979

Part 5: Jan 1980

PREM 19/223

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~24.1.80~~							
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25.2.80							
ends.							

PART 5 ends:-

MODBIA to FCO 25. 2. 80

PART 6 begins:-

RTA to PM 27. 2. 80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(80) 3rd Conclusions, Item 3 (Extract)	24/01/80
CC(80) 4th Conclusions, Item 3 (Extract)	31/01/80
CC(80) 7th Conclusions, Item 3 (Extract)	21/02/80
OD(E)(80) 1st Meeting, Minutes	24/01/80
OD(80) 2nd Meeting, Minutes	25/01/80
Limited Circulation Annexe,OD(80)2nd Meeting, Mins	25/01/80
CC(80) 5th Conclusions, Item 3 (Extract)	07/02/80
C(80) 12	07/02/80
CC(80) 6th Conclusions, Item 3 (Extract)	14/02/80
OD(E)(80) 4th Meeting, Minutes	14/02/80

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 C Wayland Date 29 March 2010

PREM Records Team

c.c. CO
HMT
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LPS
MAFF
D/T
LOD

Euro Pol.

10 DOWNING STREET

From the Private Secretary

25 February, 1980.

White Paper: Developments in the European Communities

The Prime Minister has seen and taken note of your letter to me of 21 February on this subject.

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

M. O'D. B. ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

Euro PS.

Subject copy filed on:-

Germany: Schmidt visits PM

File

DS

bc: Lord Privy Seal's Office

10 DOWNING STREET

From the Private Secretary

25 February 1980

Dear George,

Visit by Chancellor Schmidt: Community Budget

As you know Chancellor Schmidt called on the Prime Minister this morning. I attach the record of that part of their discussion which dealt with the Community Budget.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

George Walden, Esq.,
Foreign and Commonwealth Office.

TCR

12

Subject copy filed on:-

Germany: Schmidt Visits Pt 2

file

DS

SECRET

10 DOWNING STREET

From the Private Secretary

25 February 1980

Dear George,

Visit by Chancellor Schmidt: Community Budget

I am sending you under separate cover the record of that part of Chancellor Schmidt's discussions with the Prime Minister relating to the Community Budget. I should also record that the Prime Minister and the Foreign Secretary had a word at Chequers yesterday about the proposal, referred to by Chancellor Schmidt, that the President of the Commission should attempt to draft a possible package solution to the budgetary problem. The Prime Minister decided that he should not be encouraged to do so, since the consequences of a leak would be unacceptable. It would be preferable for the elements in such a package to be allowed to emerge fortuitously.

I am sending a copy of this letter to David Wright (Cabinet Office).

Yours ever

Michael Alexander

George Walden, Esq.,
Foreign and Commonwealth Office.

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TGC

subject copy filed on Germany: Schmidt visits Pt 2

PARTIAL RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY, HERR SCHMIDT, AT NO.10 DOWNING STREET ON 25 FEBRUARY 1980

Present:

Prime Minister	Chancellor Schmidt
Mr. Michael Alexander	H.E. Dr. Jürgen Ruhfus

* * * * * * * * * * *

COMMUNITY BUDGET

Chancellor Schmidt said that he hoped the Commission would come up with a proposal capable of resolving the problem of Britain's contribution to the Community Budget. The approach currently being adopted to the European Council would get nowhere.
Either far more effective preparations should be put in hand or the budgetary question should be pushed into the background. The Prime Minister agreed that better preparation was needed. She was not prepared to have a repeat of the disastrous meeting in Dublin. But the problem could not be pushed into the background. There would have to be some movement on 31 March. Failing such movement her position would become impossible.

The Prime Minister asked whether the difficulty lay in the failure of anyone so far to come up with the right scheme for solving the problem or whether it was a question of the unwillingness of the other members to pay the bill. Chancellor Schmidt said that no-one had done a sufficiently thorough-going or sophisticated analysis of the problems. Too much of the talk had been in terms of gross figures. These figures needed to be broken down into their components i.e. the contributions made by the VAT, by tariffs, by levies and MCAs. The role of the various funds, e.g. the social and regional funds, needed to be considered in more depth. All this could only be done either by the Commission or by the Presidency.

Chancellor Schmidt asked whether the Prime Minister would be prepared to take the lead in proposing the revision of the CAP.

/The

The Prime Minister said that she would but that she considered the chances of getting support from the others would be small. Chancellor Schmidt said that the Prime Minister might be right but the effort would have to be made. Failure to reform the CAP would be more painful and more damaging than any reform. He agreed with the Prime Minister that it might take three or four years or even a little longer to put through an effective programme of reform. The Prime Minister repeated that she would be willing to make the effort but observed that it would be easier if the Commission's own proposals in the area did not invariably damage British farming.

Chancellor Schmidt said that if Britain could make a gesture on fish and find a way of solving the sheepmeat problem it would enormously improve Britain's negotiating position. He recognised Britain's views on the latter subject but sometimes it was necessary to acquiesce in things that were wrong. It would also be very helpful if Britain were to join the EMS. The Prime Minister said that Britain would continue to press ahead in good faith with the negotiations on fish and sheepmeat - as indeed we had done immediately after Dublin where fish was concerned. As regards EMS, if Britain had joined in the autumn, the present exchange rate would have taken us well out of the grid. The effort to have stayed within the grid would have resulted in a major increase in the money supply. Chancellor Schmidt said that whether or not Britain was in the EMS, the exchange rate was going to rise. He did not think that membership of the EMS would alter the fate of British currency one way or the other. There might be some difficulties. Indeed the Federal Republic had experienced some itself. But British membership of the EMS would help Europe as a whole greatly. He hoped that the Prime Minister would think seriously about it.

Chancellor Schmidt asked whether the Commission should be instructed to produce a possible package solution to the Budget problem. He and Lord Carrington had discussed the idea with President Jenkins at dinner two days previously. Mr. Jenkins had said that the Commission bureaucracy was probably incapable of producing such an approach. All that he could do would be to write a personal letter setting out a solution to the nine Heads of Government.

/The

The Prime Minister said that she thought it should be for the Presidency to follow up this idea. She doubted whether in present circumstances the Commission President (whom Chancellor Schmidt had noted was under suspicion of being excessively favourable to the British viewpoint) carried sufficient weight. Signor Cossiga very much wished to be helpful. Although he had problems of his own, it looked as though he would probably remain in office until the Venice meetings. Chancellor Schmidt agreeing that Signor Cossiga should be asked to carry the matter forward said that he should nonetheless be urged to make full use of the Commission in doing so. The Prime Minister agreed. Chancellor Schmidt also suggested that Signor Cossiga should be told that the Prime Minister and the Chancellor had discussed the question of reform of the CAP and had agreed that steps to achieve this should now be put in hand. The Prime Minister agreed that this message should be conveyed to Signor Cossiga by each Government's representatives.

Structure of the Commission

Chancellor Schmidt commented that Mr. Jenkins was a good but not a great President of the Commission. (The only really effective President of the Commission, according to Chancellor Schmidt, had been M. Monnet. He had been willing to exploit all the potentialities of his position while remaining in the background.) The Commission as presently organised was an impossible organisation. There was no need to have more than four or five Commissioners. Unfortunately, the smaller members would never agree to a radical reduction in the number of Commissioners. Perhaps an inner Cabinet should be envisaged. The Prime Minister agreed with Chancellor Schmidt's analysis.

10 DOWNING STREET

21 February 1980

Dear David,

UK CONTRIBUTION TO EC BUDGET: PUBLICITY

The Prime Minister has agreed to do one major French and one major West German interview between now and the next European Council. In both cases we will obviously want the Government's views on the Budget question to be a major feature of the interview, although no doubt other subjects will be covered.

As regards the West German interview, the Prime Minister accepts Sir Oliver Wright's recommendation that it should be offered in the first place to 'Die Welt'. We would be grateful if you could now ask our Ambassador in Bonn to put it to 'Die Welt' and, assuming that they are still interested, we will then need to consider how best to clear this with the Chancellor's Office (para 5 of Bonn telegram 543 of 27 September). Now that Herr Rufhus has left the Chancellor's Office to become the West German Ambassador here, does Sir Oliver Wright still think we should try to clear the request on the Private Secretary net or in some other way?

As regards the French, the Prime Minister would like to do a television interview. Juliet Collings in Paris has suggested (her letter of 15 February, not to all) that we should give first refusal to the 'Questionnaire' programme on TF1 for which Jean-Louis Servan-Schreiber is the interviewer, on the grounds that they have a wider audience than Antenne 2 and also because they asked first. Do you agree with this recommendation? If so, then probably the most practical next step is for us here to make arrangements direct through the Embassy in Paris for the interview to take place sometime in the first 10 days of March depending on the Prime Minister's programme.

Do you and Bonn agree that we should also try to fit the interview with 'Die Welt' into the same period?

I look forward to hearing from you.

Yours ever,

Charles

C V ANSON

cc
M O'D B Alexander, Private Office, No 10
M D M Franklin, Cabinet Office
W Marsden, European Community Dept, FCO
P W M Vereker, Western European Dept, FCO

A D Brighty Esq
News Department
Foreign and Commonwealth Office
Downing Street (West)
LONDON SW1A 2AL

CABINET OFFICE

With the compliments of

Sir Robert Armstrong KCB, CVO

Secretary of the Cabinet

M. O'D. B. Alexander, Esq.

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

SECRET

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CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

21st February, 1980

Ref. A01486

British Contribution to EEC Budget

Following the meeting which the Foreign and Commonwealth Secretary had with the Prime Minister yesterday, at which I was present, I undertook to make a note of the work which I thought needed to be done.

I attach a note herewith. Perhaps it will be useful if we could meet briefly to discuss it and clear it, before work is actually put in hand.

I am sending a copy of this letter and the note to Michael Alexander.

ROBERT ARMSTRONG

Sir Michael Palliser, GCMG

SECRET

1. Analysis of effects on British net budgetary contribution to EEC, on British balance of payments and on retail price index of:
   (1) Commission's farm price proposals
   (2) Failure to agree on any farm price proposals
   (i.e. no price increases, withdrawal of butter subsidy, etc.)

   (Cabinet Office, consulting FCO and MAFF).

2. Outline of possible British initiative for major structural review.

   (FCO, consulting Cabinet Office).

3. Note by officials on contents of possible package deal at European Council meeting in March:

   <u>What Britain would be prepared to offer on</u>:
   (a) CAP prices
   (b) Sheepmeat
   (c) Energy
   (d) EMS

   <u>What is present position on net contribution</u>:
   (e) Methods: financial mechanism, plus agreed additional Community payments to United Kingdom, plus medium-term structural shift: no receipts mechanism.
   (f) Figures - the area of negotiation:
   (i) the abatement of 520 meua on table at Dublin;
   (ii) the abatement of 800 meua (including (i)) emerging from Lord Privy Seal's tour;
   (iii) anything emerging from Ruffini;
   (iv) the French position;
   (v) the net contribution of 200 to 250 meua proposed to Cossiga.
   (g) Initiative for major structural review.

   (Cabinet Office, consulting FCO, and other Departments as appropriate).

4. Note by Foreign and Commonwealth Secretary and Lord Privy Seal, to cover 3, and describe (and seek authority for) negotiating tactics.

   (FCO, consulting Cabinet Office).

2 pp.

Prime Minister
You asked why the White Paper had to be published bi-annually.
MAB 21/2

Foreign and Commonwealth Office

London SW1A 2AH

21 February 1980

Dear Michael,

White Paper: Developments in the European Communities

Thank you for your letter of 6 February. The Foreign and Commonwealth Secretary and the Lord Privy Seal considered last year whether we should continue publishing these White Papers at all. They also looked then at the possible compromise of an annual publication.

The practice of making twice-yearly reports was recommended by the Foster Committee on European Legislation (1972/73). Except for last year, they have now become part of Parliamentary routine. They provide a convenient opportunity for a general debate on Community developments and for a statement of Government views. This helps us to resist demands for more prime time on the floor of the House on Community business. Even if we were to publish annually, we would probably have to hold two general debates a year.

Six months is a logical period which covers each successive Presidency. The edition published in mid-year can contain useful statistics which are not available at the beginning of the year.

We could expect criticism, particularly in the Commons, of any change of practice, and increased demands for reports and debates which could be time-consuming and troublesome.

The Lord Privy Seal made clear in his Forward to the latest White Paper that the next in the series will resume the normal six-monthly cycle, and cover events from January to June 1980.

The Foreign and Commonwealth Secretary therefore believes that, on the whole, it would be preferable not to alter the plan to revert to the normal six-monthly cycle.

I am sending copies of this letter to the Private Secretaries of the members of OD(E) and to David Wright (Cabinet Office)

Yours ever

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

Mr Spreckley, ECD(I)

Community Budget: Conversation Between the Foreign and Commonwealth Secretary and Mr Jenkins

Lord Carrington had dinner on 18 February with Mr Jenkins at the Residence of HM Ambassador Rome. Mr Jenkins had earlier in the day called on the Italian Prime Minister. Signor Cossiga had seemed fully committed to trying to achieve a solution to the Community Budget problem and was prepared himself to undertake a series of bilateral visits in the period immediately preceding the European Council in Brussels at the end of March. The Italian Foreign Minister would, before then, visit Community capitals himself for preliminary discussions. Mr Jenkins implied that he did not think anything new would emerge from Signor Ruffini's expeditions. Mr Jenkins added that the Commission's paper offered, in his view, a satisfactory framework in which a solution might be found. He was not himself too pessimistic about the prospects. He thought there was at least a 30% chance of achieving by the end of March a solution acceptable to the British Government. Everyone in the Community wanted the problem out of the way. Even the French were not as antagonistic to the idea of a solution along the lines which the Commission had proposed as they were sometimes represented. Nonetheless, it would be a hard slog and the British Government would need to consider carefully its tactical approach. His own advice was as follows:-

(a) The idea of a receipts mechanism should be dropped. Nobody in the Community regarded it as a serious demand and nobody was prepared to hand out a blank cheque in this way. Continued insistence on it would merely complicate the discussions. It was idle to think that some substantive price could be exacted for its eventual withdrawal.

(b) The British Government should now be more specific about the projects on which Community money could be spent in Britain. Mr Jenkins knew that a British team was due to go to Brussels the following week to discuss this. He hoped they would have some imaginative ideas. He referred in passing to the Channel Tunnel but did not press the point.

(c) It would be counter-productive to labour the additionality point too much. Provided that the British Government showed a reasonably degree of flexibility it ought to be possible to fudge the issue in practice. But too much public emphasis on it would irritate other Community countries unnecessarily.

(d) The prospect of

(d) The prospect of British accession to the EMS Exchange Rate Mechanism would be a powerful incentive to Herr Schmidt who attached an underlying psychological importance to Britain joining. Mr Jenkins' personal view was although there might not be any very great economic benefit to Britain in joining, the British Government would lose nothing by doing so and that if a satisfactory budget settlement could thereby be secured, the price was well worth it. It would be a mistake however simply to throw this in at the last moment in the hope of clinching a deal. The right tactical way to play it would be for the Prime Minister to indicate at the outset of the final phase of negotiations, i.e. at about the beginning of March, that the British Government was interested in joining.

(e) Linkage was in practice inescapable. All the other Heads of Government would need to show that they had achieved something positive in return for the financial sacrifice which would be involved in meeting the British budgetary demands. But the cost of such linkage ought not to be difficult for Britain. The French would need something on sheepmeat, where the money, as opposed to the principle, involved was insignificant, and perhaps something on agricultural prices; and the Germans would want something on energy. But there was no question of the other partners seeking a privileged price or unreasonably privileged access for North Sea Oil. All that was required was for Britain to show sympathy with the need for a Community approach to energy problems.

Mr Jenkins added that it might be necessary to engage in some special form of bilateral diplomacy with the French. Aside from President Giscard himself, the two most influential figures on the French side were M. Barre, the Prime Minister, and M. Wahl, the President's Principal Adviser. Mr Jenkins thought that a special approach to one or both of these by somebody who had Mrs Thatcher's personal confidence might be fruitful.

Paul Lever

20 February 1980 (P Lever)

ccs:-
PS
PS/LPS
PS/PUS
Lord Bridges
Mr Hannay
Mr Franklin, Cabinet Office
PS/Chancellor of the Exchequer
Mr Alexander, No 10
Sir M Butler, UKREP Brussels

cc master

SECRET

10A. F.S.

NOTE OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE FOREIGN AND COMMONWEALTH SECRETARY AT 10 DOWNING STREET AT 1700 HOURS ON WEDNESDAY 20 FEBRUARY 1980

In addition to the Prime Minister and Lord Carrington, Sir Robert Armstrong, Mr. Whitmore and Mr. Alexander were present.

Europe

The Foreign and Commonwealth Secretary said that not much progress had been made in our effort to solve the problem of Britain's contribution to the Community Budget since Dublin. There was now not much more than a month left before the next meeting of the European Council. At some time between now and 31 March it would be necessary to divulge to at least some of our partners the sort of figure that HMG was prepared to settle for. Moreover, no settlement would be possible unless it was a settlement across the board: it would have to deal not only with the Budget problem but also with farm prices, sheepmeat and energy. Of course there would be no need to finalise any agreement on the latter issues unless we had received satisfaction on the Budget.

The Prime Minister said that she was less interested in how we achieved a result than in the result itself. She was reluctant to go much beyond the figures she had given to Signor Cossiga. There was an impression that we had already conceded too much. As a result the Government was getting a very bad press. She had taken her stand on the concept of "broad balance" and would be criticised in the House of Commons for failing to achieve it. The Foreign and Commonwealth Secretary said that it would be necessary to go further than the contribution of 200/250 mua which had been mentioned to the Italian Prime Minister. Indeed, in his view, there was no prospect of settling on a contribution of as little as 300 mua.

It was therefore necessary to consider what the Government would do in the event of a failure to reach agreement on a figure close to 300 mua on 31 March. As he saw it, we had the option of withholding our contribution; of obstructing the work of the Community; or of blocking the new farm prices. The Prime Minister said that she regarded blocking farm prices as an element in a policy of obstruction. Absence of agreement on farm prices could cut both ways. On the one hand the absence of agreement might mean the

/cessation

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cessation of the present butter subsidy and a consequent rise in the RPI. On the other hand this might be less than the increase in the RPI which would result from a general rise in farm prices. More generally, the Prime Minister said that she saw withholding as an option to be adopted in the second half of the year subsequent to a period of obstruction of Community decision-making.

On withholding, the Foreign and Commonwealth Secretary said that the Government could not withhold unless they had previously legislated. The act of legislating would, he was advised, involve a breach of the Treaty of Rome. This, in his view, might well set Britain irrevocably on a path which would lead to our departure from the Community. The Prime Minister said that she was not at all sure that she agreed that it would be necessary to legislate before withholding. She did not think the Commission would take HMG to court in this country. Moreover, she did not think that the other members of the Community would think it in their interests to drive Britain out. The Foreign and Commonwealth Secretary said that he was not at all sure on this last point. In any case before agreeing to a policy of withholding it would be necessary to look very carefully at the consequences of our ceasing to be members of the Community. He himself regarded the political and economic consequences as being of great gravity. The Prime Minister said that she herself did not wish the country to leave the Community.

However, she added that she did not think Departments were being tough enough or imaginative enough in arguing the British case. The French had struck at the roots of the Treaty in defending their point of view on sheepmeat. We should be prepared to pursue our interests with similar vigour. The sort of ideas we should be considering were the imposition of a levy on the imports of French (and German) cars; the sale of oil to Europe at spot prices or subject to a special tax; the reopening of the offset agreement. She repeated that she was less interested in the methods by which redress of the budgetary imbalance was achieved than by the fact that it was achieved.

/The Foreign

The Foreign and Commonwealth Secretary repeated his view that it would not be possible to negotiate a settlement which limited Britain's contribution to 300 mua per year. It might be possible to secure a settlement on a basis of our contributing one-third of what we might otherwise have contributed ie 5/600 mua. This would of course be only part of the solution: the other part would be a commitment to the restructuring of the Budget as a whole. Britain had an important lever in this context in the shape of the 1% VAT ceiling. The Prime Minister said that she placed no faith in such a commitment and that she did not wish to have to resume the negotiation later this year or next. It was pointed out that whether as a result of a failure of the British negotiation or as a result of the need to restructure the Budget, the Community inevitably faced a period of 2 or 3 years of on-going crisis.

It was agreed that the whole complex of problems would have to be discussed in OD and in Cabinet before the next European Council meeting. Against that background it was agreed that Sir Robert Armstrong would produce a paper setting out the tactics which would have to be pursued in the next few weeks. The paper would look at the elements in a possible package solution to the budgetary problem; at the means open to HMG of exerting pressure on the other members of the Community; and at the way the hand might be played e.g. in bilateral meetings between now and 31 March. In this last context it was noted that there would have to be personal contacts with Chancellor Schmidt and President Giscard or with members of their staffs.

20 February 1980

Euro Pol

PRIME MINISTER

UK Contribution to EC Budget : Publicity

1. We need to consider what steps to take to present our case on the EC Budget in the other countries of the Nine.

2. You decided before Dublin not to give any interviews or briefings to the press beyond what this Press Office, FCO and Treasury were already doing.

3. I think the position in the period running up to the next European Council meeting is rather different. The main arguments for a reduction in our contribution are well-known but we need constantly to counter:

(a) mischievous arguments, for example, about North Sea oil, the British economy, etc., put about in Brussels, Paris and, to a lesser extent, Bonn;

(b) continually to remind the press and, through them, those officials dealing with the issue in continental capitals that we really do mean business and that we must have an early solution.

4. We have received requests for interviews from many important European outlets and, together with the FCO and Treasury, an active programme involving Lord Carrington, the Lord Privy Seal and Treasury Ministers has already begun. (Details given at Flag A). These requests from the European media include several for interview with you, the most important of which come from Die Welt and French Television. It is, of course, in France and West Germany that we most need to get over our message.

/5. I

5. I believe you have nothing to lose and much to gain from doing one major French and one major German interview, if you have time between now and the next Council. We can ensure that the media in the rest of the Community, particularly Denmark and the Netherlands, are covered by other Ministers.

6. You may remember that Die Welt asked for an interview through Dr. Barzel last September (Flag B). They have renewed their request and it is strongly supported by our Ambassador in Bonn and by the FCO. Should you be unwilling or would not have time for a full interview, we could try to place an article signed by you in Die Welt, but this would, in my view, be very much a second best.

7. As regards the French, our Ambassador in Paris recommends a television interview, the timing to be decided carefully in the context of our negotiating tactics. I understand that Lord Carrington supports this recommendation and may be writing to you.

8. I recommend that you should do both interviews, subject to satisfactory assurances on the nature of the questions, interview, etc. Do you agree?

B. INGHAM

18 February, 1980

EC Budget : Publicity Programme

The following is a list of the publicity which has already been undertaken:

(i) Lord Privy Seal interviewed on Dutch Television (14 December).

(ii) Two articles by the Lord Privy Seal in the Belgian financial daily "Agefi" on 21 November and 21 December.

(iii) Lord Privy Seal interviewed on TF1 (French Television) on 23 January.

(iv) Lord Privy Seal's speech at IFRI (23 February). We are trying to get this published in a suitable French paper, perhaps "Politique Internationale".

(v) Chancellor of the Exchequer's speech to the French Chamber of Commerce on 17 January.

(vi) Lord Privy Seal's interview with Europa (published on 5 February in The Times).

(viii) Lord Carrington's interview with L'Express (on 8 February for publication on 16 February).

For the future we plan:

(i) Lord Privy Seal's signed article for Le Soir, Brussels (within two weeks).

(ii) An article for Die Welt or another German newspaper (to be arranged).

/(iii) An

(iii) An article for Le Monde towards the end of February, perhaps under Lord Carrington's signature.

(iv) Lord Carrington to be interviewed on German Television (ARD). No date fixed.

(v) Request from French radio to interview Lord Carrington in March (to be arranged, depending on Prime Minister's response to request for interview on French Television).

(vi) Nigel Lawson to write a feature article for the Financial Times on the EC budget (which should be widely read in other European capitals).

In addition, briefings are being given regularly to resident and visiting correspondents for EC countries by officials in No. 10, FCO and Treasury.

Euro Pol

vdc CAP Pt 3

CONFIDENTIAL

NBPA yet

Ref. A01435

MR. ALEXANDER

Sheepmeat and the Community Budget

You asked for a comparison between the benefit to France of the concessions on sheepmeat, which OD(E) envisaged we might make in return for a satisfactory Budget settlement, and the French contribution to the cost of that settlement.

2. Reckoned on the same basis as the cost to us of £13 million to provide a sheepmeat regime to suit French interests, the benefit to France of the suggested concessions on sheepmeat during the first year of the regime would be £25 million. Subsequent benefit would depend on how quickly we were able to get producer premia down to a common, non-discriminatory level and the amount of intervention buying in France.

3. The £25 million would be a useful if small offset to the French share of meeting our budgetary requirements. To bring the United Kingdom's net contribution down from 1814 meua to say 300 million eua would cost the French about 445 million eua or £300 million.

D. J. Wright

(D.J. Wright)

15th February, 1980

CONFIDENTIAL

PMG Note 5/80

Euro POL

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

15 February 1980

TO ALL MINISTERS

Mr Pond

Our Information Officers in Brussels, and those in the FCO, have been doing everything they can to try to spread the gospel about Britain's case on her nett Community Budget contributions. They still feel, however, that the message is not really getting across to public opinion in the other Community countries through the media there.

They feel strongly - and so do Ian Gilmour and I - that it would be most helpful if every Minister could make a concerted effort to get this message across. This would involve not only contacts with foreign journalists in London but Press and other media interviews in the other Eight Community countries.

It would be very helpful, therefore, if any Minister who is going to a Community country for whatever purpose, would seek every opportunity of including this message in any Press Conference or media interview he can arrange. What needs to be got across is not simply the merit of the British case on the Budget, but a warning of the strength of anti-Community resentment which is building up in this country - largely as a result of the Budget injustice. While the Government are firmly committed to Europe, we need to point out on every possible opportunity that we are being presented here with an increasingly serious political problem which we cannot indefinitely ignore. Nothing could be worse for the Community as a whole than that this should become a major issue at the next Election, with the Labour Party taking a firmly anti-European stance. Unless the Eight are prepared to meet us effectively on our Budget problem, this is only too likely to happen.

Anything that Ministers can do to get this message across to Press and public opinion in Europe cannot fail to be helpful.

Angus Maude

ANGUS MAUDE

MASTER

CONFIDENTIAL

NB Papers under ref are filed Energy May 79 (Euro Energy Policy)

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(2)

OD(E)(80) 4th Meeting

COPY NO 2

MT

Prime Minister.
You may have read the attached papers as well as the minutes.
MT
15/2

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

SUB-COMMITTEE ON EUROPEAN QUESTIONS

MINUTES of a Meeting held in the Large Ministerial Conference Room, House of Commons on THURSDAY 14 FEBRUARY 1980 at 5.30 pm

PRESENT

The Rt Hon Lord Carrington
Secretary of State for Foreign and Commonwealth Affairs (In the Chair)

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon Sir Michael Havers QC MP
Attorney General

ALSO PRESENT

The Rt Hon David Howell MP
Secretary of State for Energy

SECRETARIAT

Mr M D M Franklin
Mr D M Elliott
Mr N C R Williams

That statement would be disastrous for Britain and I am not prepared to make it. The idea that we should have to sacrifice our manifesto to secure some of our own money back is one that may appeal to the Foreign Office but it doesn't to me.

Wouldn't have been courteous to say the least to have come to me first?

MT.

Ra.
MT

CONTENTS

CONFIDENTIAL

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

From the Minister

NBPM
Thank
14/2

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

14 February 1980

CONFIDENTIAL

Dear John.

NET UK CONTRIBUTION TO THE EEC BUDGET

Thank you for your letter of 14 January. I have studied the figures you quote with much interest. I agree that the 1 per cent VAT limit is not likely to result in the Community concentrating all the necessary cuts on the non-obligatory structural funds. Indeed, I assume that we shall want to consider how to avoid this happening. I expect some curb on the growth of CAP expenditure with a consequent reduction in our forecast net contribution to the Budget. But the size of the reduction will depend a great deal on the way the curb is implemented.

As you point out, however, cuts in CAP spending could well entail further public expenditure on domestic support for agriculture. I agree that our public expenditure plans should allow for this which might well offset any savings from the 1 per cent limit.

As regards the effect on our contribution of our present negotiations for a more equitable arrangement, I appreciate that it would be premature to take credit for success. I can therefore accept the £2 billion figure for the contribution to the EEC Budget in 1983-84. But it will obviously be important to present this figure in a way that avoids throwing doubt on our determination to secure a fair settlement of the Budget issue.

I am copying this letter to the Prime Minister and other Cabinet colleagues and to Sir Robert Armstrong.

Yours

PETER WALKER

cc Euro Pol (Cap) Pt 3

Ref: A01415

CONFIDENTIAL

PRIME MINISTER

Community Affairs

The Chancellor of the Exchequer might be invited to report on the 11th February Finance Council. The first reading of the Commission's paper on supplementary Budget measures for the United Kingdom was noteworthy only for a French attempt to stake out a negotiating position by arguing that our gains from North Sea oil meant that we did not even need the £350 million relief offered at Dublin. The Finance Council approved a set of guidelines intended to encourage the Agriculture Council to secure economies in CAP expenditure.

Thatcher

2. The Minister of Agriculture might wish to give his first assessment of the Commission's CAP price proposals for 1980-81, which were published last week. Pending detailed study, OD(E) on 7th February agreed that he should at next week's Agriculture Council maintain our opposition to price increases for surplus commodities. The Minister of Agriculture might also report on the current sheepmeat position; the Commission have now initiated a third infraction case against France, with a deadline for reply early next week.

Hostile to us - levy Milk Rule too entirely hopeless.

3. The Secretary of State for Trade might be invited to say where matters now stand on the application we made last week for Commission action to restrain United States imports of three synthetic textile products. The five working days within which the Commission have to reach a decision expire on Friday, 15th February.

4. Last weekend the Lord Privy Seal attended the first Ministerial discussion of the report of the Three Wise Men on institutional improvements. Decisions, e.g. on the size of the next Commission, are unlikely to be taken before the June European Council.

RTA

(Robert Armstrong)

13th February 1980

SECRET + PERSONAL

cc Sir R Armstrong
Mr Alexander

only penultimate paragraph modified as compared with draft

M. J. RICHARDSON

With the Compliments
of the
Private Secretary
to the
Lord Privy Seal

14/2

SECRET & Personal

1D

Euro Pol

Foreign and Commonwealth Office
London SW1

13 February 1980

Mr Pond - 4/2

Dear Klaus,

Following our discussion in Varese last weekend, I thought it might be useful if I set out in writing where the British Government now stood on the problem of the United Kingdom's net contribution to the Community budget.

We know that the German Government has fully accepted that this is a problem which ought to be solved in the interests both of the United Kingdom and of the Community as a whole. We are grateful for that recognition. It is a matter of regret that the issue has bedevilled the Community for such a long time. In 1970, an undertaking was given in the course of the accession negotiations that should unacceptable situations arise, the very survival of the Community would demand that the institutions find acceptable solutions. The Commission's estimates show that in 1980 the United Kingdom's net contribution is likely to be well over half as much again as that of any other Member State, whereas our average GNP is far below that of the Community as a whole and is likely to remain so in spite of the real but limited benefits of North Sea oil.

/The European

Dr K von Dohnanyi
Minister of State
Federal Foreign Office
53 Bonn

SECRET AND PERSONAL

Secret & Personal

The European Council meeting in Dublin last November did mark a step along the road to a solution. By registering in the conclusions of the meeting that the removal of the constraints from the Financial Mechanism agreed in 1975 was a basis for a solution, it did in fact indicate how to deal with the gross contribution side of the problem. At the same time the conclusions recognised that there was another side to the problem, which resulted from the abnormally low level of Community expenditure in the United Kingdom. In fact, two thirds of the problem results from that, as Community spending in the United Kingdom per head of population is less than half the Community average; The Commission was asked to work out ways of remedying this. This they have now done, and the paper they circulated last week seems to us a useful framework within which to set about achieving the necessary increase in Community expenditure in the United Kingdom.

The Commission paper leaves open for discussion the questions of the amount and duration of the special supplementary expenditure required and it is to that, as we see it, that we must now address ourselves. As I told you when we met in Bonn last month the British Government approaches this discussion in a genuine spirit of compromise but our room for manoeuvre is necessarily limited. We are willing to accept that the United Kingdom will be a modest net contributor to the Community budget. We believe that there has to be, formally or informally, some objective way of calculating a reasonable and equitable expression of this. Put in numerical terms, we believe it would be reasonable to take as a benchmark that the United Kingdom's net contribution should be below that of the Member State with the next highest GNP per head in the Community and should bear something like the same proportion to that State's contribution as our per capita GNP bears to theirs.

/We believe

Secret & Personal

We believe that the full adaptation of the Financial Mechanism and increased Community expenditure in the United Kingdom should be so devised as to achieve the target set out above. In order to take account of the fluctuations which are bound to occur in the outcome of the Community budget in the years ahead we would see advantage in the amount of Community expenditure agreed for the United Kingdom in 1980 being expressed in terms of a percentage of the Community average of per capita expenditure and in that percentage being maintained in future years. This would ensure that increased Community expenditure in the United Kingdom was neither too little nor too much to produce a modest net contribution. But we are naturally open to any other suggestions for ways in which this might be achieved.

Nevertheless we see our preferred approach as offering the possibility of a lasting solution to a very severe political problem not only for us but for the whole Community. But we certainly do not see it as an overall solution to the Community's budgetary problem which, like many of our partners, we consider lies in a substantial restructuring of the Community budget. We would like to see that objective pursued vigorously from now on and suggest that the Community should invite the Commission to make proposals designed to ensure that, by 1986, the proportion of the budget devoted to the Guarantee Section of FEOGA is not more than 55% of the total. The implementation of the policies needed to bring about such a change would be likely to have some positive effects on the United Kingdom's net contribution and these would certainly need to be taken into account when reviewing the operation of the Financial Mechanism and the measures for boosting Community expenditure in the United Kingdom, say at the end of the sixth year of operation (the review period provided for in the existing Financial Mechanism). But past experience

/has shown

has shown that the setting of such a 55% target does not in itself bring about its attainment and the desire to ensure that any special measures for the United Kingdom should be temporary, should not, in our view, cut across the evident interest of the Community to find a solution which will last as long as the problem and which will avoid a further discussion of this matter in the Community within a relatively short period of time.

The Community has now been discussing for almost a year a situation which no one disputes is unacceptable. My Government is most anxious to reinforce commitment to the European Community on the part of the British people and their political leaders, and such commitment, I am sure you will agree, is very much in the general interest of the whole Community. Failure to achieve a rapid and satisfactory solution to the problem would inevitably have the most serious consequences.

I hope you will not hesitate to suggest ways in which we might make sufficient progress to be sure of reaching agreement in March. I look forward to seeing you shortly. My office is in touch with yours.

yours ever

Ian

c.c. PS
PS/PUS
LORD BRIDGES
MR HANNAY
MR SPRECKLEY
SIR K. COUZENS, H.M. TREASURY
MR M. FRANKLIN, CABINET OFFICE
SIR M. BUTLER, UKREP BRUSSELS

CONFIDENTIAL

Bus B1.
Sir R Armstrong
cc Mr Alexander
for information

PS/Lord Privy Seal

copy to: Lord Bridges
Mr Hannay
Mr Franklin, Cabinet Office
Mr Hancock, Treasury

12/2

but request unfounded

LETTER TO HERR VON DOHNANYI

1. With his minute of 11 February Mr Hannay circulated a draft letter to Herr von Dohnanyi from the Lord Privy Seal following on the conversation they had at Varese. This draft has now been revised after consultation with Sir K Couzens and Mr Franklin. I submit the revised text.

2. Sir K Couzens will be putting it to the Chancellor with a recommendation that he agree to this line.

J N T Spreckley
European Community Department (Internal)

12 February 1980

NKRA

13/2

CONFIDENTIAL

(Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Lord Privy Seal

DEPARTMENT: TEL NO:

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

Herr Klaus von Dohnanyi

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

When we discussed this matter in Varese last weekend you said it would be useful if I could set out briefly where the British Government now stood on the problem of the UK's net contribution to the Community budget.

We know that the German Government has fully accepted that this is a problem which ought to be solved in the interests both of the United Kingdom and of the Community as a whole. We are grateful for that recognition and, for our part, agree with this view. The Community has so far failed to grapple sufficiently with the problem. It is a matter of regret that it has bedevilled the Community for such a long time. In 1970, an undertaking was given in the course of the accession negotiations that should unacceptable situations arise, the very survival of the Community would demand that the institutions find acceptable solutions. Now the Commission's estimates show that in 1980 the UK's net contribution is likely to be some 40% larger than that of any other Member State, whereas our average GNP is far below that of the Community as a whole and is likely to remain so in spite of the real but limited benefits of North Sea oil.

Enclosures—flag(s).....

The European Council meeting in Dublin last November did mark a step along the road to a solution. By registering in the conclusions of the meeting that the removal of the constraints from the Financial Mechanism agreed in 1975 was a basis for a solution, it did in fact indicate how to deal with the gross contribution side of the problem. At the same time the conclusions recognised

/that there

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there was another side to the problem, which resulted from the abnormally low level of Community expenditure in the UK. In fact, two thirds of the problem results from that, some 49% only of the Community average is spent in the UK; and the Commission was asked to work out ways of remedying that. This they have now done, and the paper they circulated last week seems to us a useful framework within which to set about achieving the necessary increase in Community expenditure in the UK.

The Commission paper leaves open for disucssion the questions of the amount and duration of the special expenditure required and it is to that, as we see it, that we must now address ourselves. As I told you when we met in Bonn last month the British Government approaches this discussion in a genuine spirit of compromise but our room for manoeuvre is necessarily limited. We are willing to accept that the United Kingdom will be a modest net contributor to the Community budget. We believe that there has to be, formally or informally, some objective way of calculating a reasonable and equitable expression of this. Put in numerical terms, we believe it would be reasonable to take as a benchmark that the UK's net contribution should be below that of the Member State with the next highest GNP per head in the Community and should bear the same proportion to that State's contribution as our per capita GNP bears to theirs.

We believe that adaptation of the Financial Mechanism and increased Community expenditure in the UK should be so devised as to achieve the target set out above. In order to take account of the fluctuations which are bound to occur in the outcome of the Community budget in the years ahead we would see advantage in the amount of Community expenditure agreed for the UK in 1980 being expressed in terms of a percentage of the Community average of per capita expenditure and in that percentage being maintained in future years. This would ensure that increased Community expenditure in the UK was neither too little nor too much to produce a modest net contribution.

/We

We see this approach as offering the possibility of a lasting solution to a very severe political problem not only for us but for the whole Community. But we certainly do not see it as an overall solution to the Community's budgetary problems which, like many of our partners, we consider lies in a substantial restructuring of the Community budget. We would like to see that objective pursued vigorously from now on and suggest that the Community should invite the Commission to make proposals designed to ensure that, by 1986, the proportion of the budget devoted to the Guarantee Section of FEOGA is not more than 55% of the total. The implementation of the policies needed to bring about such a change would be likely to have some positive effects on the UK's net contribution and these would certainly need to be taken into account when reviewing the operation of the Financial Mechanism and the measures for boosting Community expenditure in the UK, say at the end of the sixth year of operation (the review period provided for in the existing Financial Mechanism). But past experience has shown that the setting of such a 55% target does not in itself bring about its attainment and the desire to ensure that any special measures for the UK should be temporary, should not, in our view, cut across the evident interest of the Community to find a solution which will last as long as the problem and which will avoid a further discussion of this matter in the Community within a relatively short period of time.

I have set out our thiking at some length and I hope his will be of use to you. But I would not wish to end this letter without emphasising the seriousness of the situation that would arise if an agreed solution to the problem cannot be found at the next European Council at the end of March. The Community has now been discussing for almost a year a situation which no one disputes is unacceptable to us. To fail to solve it now, when no issues of principle divide us, would provoke a negative reaction in political and public opinion in this country which must not be under-estimated and which would lead to calls for actions that would inevitably damage the Community's unity and solidarity towards the outside world at a time when it more than ever needs both of these.

/In the

89280 Dd 532113 200M 2/79 SLS

In the weeks ahead we must find a way of reaching an equitable solution. And I am sure that our own bilateral contacts, both at Ministerial and at official level, have an important role to play. I hope you will not hesitate to suggest ways in which such contacts could usefully be intensified.

SECRET Euro Pol. VB 9

B/K and hwy for tel. to Rome

8 February 1980

Community Budget

I have discussed your letter to me of 7 February on this subject with the Prime Minister. She is content that you should proceed in the way proposed and that the draft telegram to Rome should issue.

MICHAEL ALEXANDER

KRB

Paul Lever Esq
Foreign and Commonwealth Office

SECRET

BRITISH CONTRIBUTION TO THE EEC BUDGET

The Paymaster General thought that Ministers would find the following text on the British contribution to the EEC budget useful for weekend speeches. It is based on an extract from a speech the Chief Secretary to the Treasury made on 7 February 1980:

The Institute of Fiscal Studies has just published an analysis of the economic relations between Britain and the European Community. As one might expect it is a thoughtful and well argued contribution to the debate about Britain's contribution to the Community budget. No one who attends to the debates in Parliament or informed discussion in the world outside can doubt that Britain's role in the European Community is central to public debate. I would like to add a word to that debate in the context of our own public expenditure problems.

The White Paper on Government spending published last November showed that Britain was expected to make a net contribution to the European Community of £1,000 million. It is a formidable sum and this government, led by the Prime Minister herself, has striven to have it substantially reduced. No one in Britain seriously doubts the justice of our case. On this there is political unanimity. Our European partners must realise that.

However, the issue also has a domestic dimension. The £1,000 million Euro-subscription is rather more than 10% of the published government borrowing requirement for this financial year. It is substantially larger than the UK aid programme, although unlike the aid programme it chiefly benefits countries which are already very much better off than the UK. Nearer home, it is roughly equal to total expenditure on building new schools and hospitals.

The British people cannot be expected to accept this unfair situation and neither does the British government. Both the rights of the matter and the feelings of the public require us to fight to correct this financial contribution to Brussels.

/The

The Prime Minister and Chancellor of the Exchequer are determined to secure an equitable solution. And the Prime Minister has reminded us that "the solution should last as long as the problem". We need a lasting solution but to get it we shall require a determined and hard-headed negotiation carried out in good faith.

Meanwhile we would be foolish to suppose there will be any easy accommodation of the British standpoint. We shall have to battle tenaciously for our national interests. No one, however, looking at the prospective course of Britain's Euro-contributions can doubt that the outcome is vital to our national budget and our ability to balance government spending and revenue better.

The Paymaster General's Office
Privy Council Office
68 Whitehall
SW1

8 February 1980

8

Foreign and Commonwealth Office

London SW1A 2AH

7 February 1980

Dear Michael,

Community Budget

We learnt in the margin of the 5 February Foreign Affairs Council that Signor Ruffini, Italian Minister of Foreign Affairs, rather than Signor Cossiga himself, will undertake the initial Italian tour of capitals on behalf of the Italian Presidency. It was stressed that Signor Cossiga was not backing down on what was agreed in London, but feels that action by him could be more effective in March.

There is a risk that Ruffini will not do justice to our position. We therefore see merit in an approach to our partners in advance of his tour. Our Ambassadors might convey the outline of the Six Points given by the Prime Minister to Signor Cossiga. It would be important to make it clear that they represented a concession by us and had not been extracted following Italian pressure. It would, however, be necessary first to consult the Italian Government. For this purpose I enclose a draft telegram to Rome.

I should be grateful to know if the Prime Minister is content that we should proceed in this way.

Yours ever

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

D 107991 400,000 7/76 904953

XY 42

File No. .....

Department ECD(I)

Drafted by (Block Capitals) J MACGREGOR

Tel. Extn. 6105

OUTWARD TELEGRAM

Security Classification: SECRET

Precedence:

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FOR COMMS. DEPT. USE — Despatched (Date) ..... (Time) ..... Z

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PREAMBLE

(Time of Origin) ..... Z (G.M.T.)

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SIR K COUZENS, TREASURY

[TEXT]

COMMUNITY BUDGET: THE SIX POINTS

1. We have been thinking over the problem of how to get our points over in capitals promptly and clearly. At the moment, the Italians have offered to do this, but the programme of bilateral contacts they envisage stretches up to the end of February. Clearly this is too late, at least for those at the end of the list. Therefore, subject to Italian views, we would see advantage if the outline of the points in para 7 of our telno 59 to Bonn could be put over in capitals next week (i.e. in advance of Ruffini's visit). Please speak to Ruggiero and if necessary Berlinguer in the following terms:

(a) Grateful to learn from conversation in Brussels between Ruggiero and Hannay of Italian efforts in trying to achieve agreement on UK budget solution. We would like to keep in close touch as Signor Ruffini's tour progresses. We

/look

look forward to seeing him in London at the end of the mon

(b) We have been giving further thought to the need for our partners to be aware of a number of important points which the Prime Minister put to Signor Cossiga during his visit to London. So far only M. Francois-Poncet knows of them. We think that Signor Ruffini's visit would probably be more fruitful if Foreign Ministers were aware in advance at least of the general lines of our position as it was defined by the Prime Minister.

(c) We would therefore like to take an early opportunity to let our partners know the lines along which we are thinking (i.e. the outline of the Six Points in the Paper handed to Signor Cossiga by the Prime Minister). We would not of course mention any figures. These will remain confidential between the Prime Minister and Signor Cossiga as was agreed at their talks.

(d) Before proceeding however we should be grateful to know whether the Italian Government is content.

89280 Dd 532113 200M 2/79 StS

CONFIDENTIAL

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 3164

H G Walsh Esq
Cabinet Office
70 Whitehall
LONDON SW1

7 February 1980

Dear Harry,

EEC BUDGET: CHANGE OF RESPONSIBILITIES IN THE TREASURY

With effect from today, I am taking over from Gerry Ashford the responsibility at Assistant Secretary level in the Treasury for the current issue of the UK contribution to the EEC budget, in addition to the contingency planning work for which I have hitherto been responsible. Gerry Ashford will remain responsible for the UK input to the annual Community budget, including current problems with the 1980 budget, and general relations with the EEC so far as they affect the Treasury.

Could you please see that I am on the circulation list for appropriate papers (EQR, EQS etc)?

Yours sincerely,

M J MICHELL

cc. Mr Alexander - No.10
Mr Franklin - Cabinet Office
Mr Hannay - FCO
Mr Spreckley - FCO
Mr Bayne - FCO
Sir Michael Butler - UKREP
Mr Fitchew - UKREP
Mr Appleyard - Paris
Mr Boyd - Bonn
Mr Hadley - MAFF
Principal Private Secretary
PS/Chief Secretary
PS/ Financial Secretary
PS/Minister of State (L)
PS/Minister of State (C)
PS/Sir Douglas Wass
PS/Sir Kenneth Couzens
Mr Hancock
Mrs Hedley-Miller
Mr Lavelle
Mr Britton
Mr D Roberts
Mrs Lomax
Mr Ashford
Mr Baker
Mr Thomson
IGCS

CONFIDENTIAL

Ref. A01358

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary might be invited to report on the outcome of the 5th February Foreign Affairs Council. On Afghanistan the Council agreed, with reluctant French and Irish acquiescence, that the Commission should implement last month's decision on agricultural exports meticulously; that member states would observe without derogation the terms of the present OECD consensus on export credits in any dealings with the USSR; and that the Nine in political co-operation should seek to develop a joint view on reactions to the Soviet invasion. Work will proceed on the basis of principles suggested by the United Kingdom, by Mr. Jenkins, and by the communique of the Franco-German Summit. The aim is to allow Ministers of the Nine to take a public position at their session in Rome on 19th February. The Council also agreed that the Presidency and the Commission together should conduct discreet soundings of the Gulf States with a view to concluding a series of economic co-operation agreements with a political content. In a separate Association Council meeting, the Turks insisted on a reference in the joint conclusions to the need to facilitate their accession to the Community at a later date.

2. The Secretary of State for Trade might be invited to report on the outcome of his discussions with the Commission, in the margins of the Council, on United States synthetic textile imports into the United Kingdom. Subject to final confirmation, it looks as though the Commission will now be willing to impose import quotas at the request of the United Kingdom on all three sensitive products.

RA

ROBERT ARMSTRONG

6th February, 1980

European Policy Unit

Mr Alexander

MBM 3

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

6th February, 1980

Dear George,

EEC BUDGET

I attach a letter that the Chancellor has written to M. Monory, the French Minister of the Economy. I would be grateful if you could arrange for its onward transmission to M. Monory. We understand that M. Monory does not read English very well and so would be grateful if the Paris Embassy could arrange for him to receive a translation with the original. We would be very grateful if the two versions could reach M. Monory by Friday, as M. Monory and the Chancellor will meet at the Finance Council in Brussels on Monday, 11th February.

I am copying this letter to Tim Lankester (No.10), Michael Richardson (Lord Privy Seal) and David Wright (Cabinet Office).

Yours sincerely

John Wiggins

(A.J. WIGGINS)

G.H. Walden, Esq.,
Private Secretary,
Foreign & Commonwealth Office

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

6 February, 1980

Dear René

NORTH SEA OIL AND THE BRITISH ECONOMY

I understand that when the Lord Privy Seal visited you in Paris recently you said that you thought that the behaviour of oil prices had brought about - even since Dublin - such a substantial improvement in the UK economy as to remove any force from our argument that the size of the UK's net contribution to the Budget of the European Economic Community is disproportionate and inequitable.

I would like to try to persuade you that this is not so.

I do not think it can be disputed that the measure of GNP per head is the only valid test of capacity to pay in international transactions, just as capacity to pay governs the domestic taxation system. Any natural endowment - say in agricultural land in other Community member countries - will be reflected in their GNP. We have included the North Sea oil benefits in our GNP calculations. In 1979 oil contributed 2 per cent to the British GNP, which was after all less than the growth of the German or French economies in that single year. And the UK still had the third lowest GNP per head in the Community. This ranking in relative prosperity is most unlikely to change in 1980, even at the latest level of oil prices. If ever the effects of North Sea oil, together with progress in other areas of our economy were found to place us at the higher end of the table of Community GNP per head, our approach to the UK's contribution to the Budget could indeed be different.

In making this point about GNP per head and capacity to pay I am not seeking to say that the funds transferred to the Budget from the UK do not belong to the Community. Of course they do. I understand and accept the concept of

/"ressources

Monsieur R. Monory

"ressources propres". But the money is not collected and transferred without effect on the UK economy. It affects the taxable capacity available to me for other domestic purposes, and cuts into the standard of living which UK citizens would otherwise enjoy. The proposition that the transfer of own resources could have an adverse effect on the economy of a Member State was explicitly recognised in the preamble to the Financial Mechanism:

> "Whereas conditions incompatible with the proper functioning of the Community could arise when a Member State's economy, whilst in a special situation, is forced to bear a disproportionate burden in the financing of the Community budget."

I believe the development of the Community has long since carried it past the point where it can afford to ignore both economic effects and equity in the way it raises and disposes of its "own resources".

Of course North Sea oil brings great benefits to the UK which would be in very great economic difficulty without them. The oil contributes to GNP, improves real income, helps the current account of the balance of payments and reduces the real burden of taxation compared with what would otherwise be the case. But the UK is not like Saudi Arabia or even Norway. It is primarily a manufacturing and trading economy which has 30 per cent of its GNP in exports and which is still importing more oil than it exports. It cannot therefore escape either the contractionary effects of higher oil prices on world activity or their inflationary effects on its domestic costs and prices. Higher oil prices are less immediately damaging to the UK than to most industrial countries. But they are damaging none the less. There is a world of difference between "suffering less" and "making a large net benefit". This is particularly true when applied to an economy half the size of Germany's and two thirds that of France which is growing at a much slower rate than either of them and may be faced in the immediate future with an actual contraction of output.

I have occasionally heard argument that with oil production of say 600 million barrels a day, each $1 increase in the price of oil "benefits the UK by $600 million". This is quite wrong because the UK consumes oil as well as producing it. We are not yet net exporters of oil. Even when we reach that stage, our net exports will be small in relation to our own oil consumption, the high cost of which affects UK users of oil as it does those in other countries. And we do not expect to be net exporters of oil for more than a few years.

/We admire

We admire the effort which France has put into investment in nuclear energy and I recognise that the financing of this investment must give you cause for concern in your management of the French economy. I imagine that, directly or indirectly, financing nuclear investment has added to French borrowing overseas. North Sea oil too represents a huge capital investment, largely financed from overseas, and this capital is now having to be serviced. Alongside the impact on the invisible account of our balance of payments of our Community net contribution we now have heavy remittances of profits and interest overseas from North Sea investment. These factors have greatly reduced and at times eliminated our invisible surplus. I receive additional Petroleum Revenue Tax when North Sea oil prices rise but many fields still have capital allowances to offset against their profits before incurring tax liabilities. And because the higher oil price depresses the economy there is a lower yield from the main consumption and income taxes to set against extra revenue from Petroleum Revenue Tax. In struggling to reduce public expenditure I have had to tell my colleagues in our Government that there is no great bonanza of North Sea tax revenue arising from recent oil price increases to absolve us from painful efforts to reduce public borrowing.

So I cannot agree with the view that the scale of the benefit from North Sea oil has somehow solved all the deep seated problems of the British economy and made it well able to afford the transfer of real income arising from our present net contribution to the Community Budget. We recognise and accept that the main responsibility for putting our economy right rests on us and you know the efforts we are making. But we are entitled to ask that the Community should not add to our task by asking of us an inequitable contribution.

I would not like to end this letter without assuring you that our own problems do not make us blind to those of our partners. In particular I would like to acknowledge that, as you say to the Lord Privy Seal, the higher cost of your own oil imports next year and the scale of your investment in the provision of nuclear energy must indeed make more difficult your handling of the French economy.

I look forward to seeing you at the Finance Council on 11th February.

Yours very sincerely

Geoffrey

(GEOFFREY HOWE)

(2)

Prime Minister

Mr Spreckley, LCD(I)

Secretary of State's Discussion with the President of the European Commission

The Secretary of State had breakfast with Mr Jenkins on 5 February in Brussels. Mr Jenkins had visited Bonn during the previous week and had had 3½ hours of discussion, mainly tete-a-tete, with Herr Schmidt. Schmidt had been, according to Mr Jenkins, in a worried and discursive mood. He was clearly still quite ill (Mr Jenkins thought it was heart trouble rather than thyroid) and had spoken in pessimistic, almost apocalyptic, terms about the state of the world. He was critical of President Carter's handling of recent events such as Iran and Afghanistan: in Schmidt's view the Americans had no coherent strategy for dealing with the Soviet Union and were simply reacting in an opportunistic way to events, lurching from one crisis to the next. Schmidt had said that there was a "smell of 1914 in the air": he thought that there was at least a 20% chance of another world war. Mr Jenkins commented that although he had seen Schmidt in a depressed state before he had never known him as emotional as this.

Schmidt had also been pessimistic about the prospects for resolving the problem of the UK's Community budget contribution. At one stage he seemed even to imply that Britain would simply have to take the 520 muas offered by the revision of the corrective mechanism and not expect anything more. But when Mr Jenkins had pressed him on this he had acknowledged that a settlement along the lines implied at Dublin, i.e. with some increase in Community expenditure in Britain, might be attainable. He had, however, been critical of the British Government's European policies generally. In particular, he had expressed considerable irritation and astonishment that Britain had not joined the EMS. Schmidt thought that even though there might not be any great financial benefit for us in joining, it would cost us absolutely nothing to do so and that failure to join was an indication that we were not at heart committed Europeans. Mr Jenkins commented that the importance which Schmidt had attached to the EMS had surprised him: he had not previously thought that the question of possible British membership of the EMS exchange rate mechanism was currently something to which other Community countries attached great importance. Mr Jenkins also said that, although the Commission had been careful not to commit itself to any figures for the degree of relief which Britain might expect to get on the budget, his own estimate of what his colleagues might collectively consider feasible and reasonable was something around 1000 muas.

cf his conversation with Sir O. Wright in the Autumn.

Finally, Mr Jenkins said that British obstruction on the non-quota section of the Regional Development Fund was counter-productive. The amount involved was tiny and there was no sense of making an issue of principle out of it. The degree of irritation which this caused within the Community, and, within the Commission, particularly to Commissioner Giolitti, who had hitherto been robust in supporting the British cause,

/was

was out of all proportion to the gain to Britain from holding things up. The Secretary of State said that he would look into the matter and see whether we needed to retain our reserve.

Paul Lever

(P Lever)

6 February 1980

ccs:-

PS/LPS
PS/PUS
PS/Sir D Maitland
Lord Bridges
Mr Bullard
Mr Hannay
Mr Fergusson
Mr Gladstone, WED
Sir M Butler, UKREP EEC

for PS/Chancellor of Exchequer
PS/Sec of State for Industry
Mr Franklin (Cabinet Office)
Mr Alexander (No 10)

European Policy

cc CDL JS
CWO
PCO
Press
CO

10 DOWNING STREET

From the Private Secretary 6 February 1980

WHITE PAPER: DEVELOPMENTS IN THE EUROPEAN COMMUNITIES 1979

The Prime Minister has seen your letter to me of 5 February on this subject. She is content that the White Paper should be laid before Parliament, as planned, on 8 February. She has, however, asked why it is planned to revert to the normal six-monthly cycle. Could the White Paper not be published annually?

I am copying this letter to the recipients of yours.

M. O'D. B. ALEXANDER

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

(2)

Prime Minister
The Lord Privy Seal mentioned this minute to you this morning.
F.A.

PM/80/10

Prime Minister

Community Budget

See France Oct 79 (Anglo-French Rel)

1. My minute of 4 February recorded my discussions on political issues during the weekend with the French Foreign Minister.

2. On the Community Budget the going was, as one might have expected, a good deal stickier. I deployed our case along the lines of the six points you put to Signor Cossiga last week as representing the basis for an acceptable compromise. I did not mention any figures.

3. Francois-Poncet replied in familiar French terms. He maintained that he himself was a relative dove on this issue, and apologised for having taken such a tough line with Ian Gilmour the previous week (Ian gave as good as he got). He claimed that President Giscard himself took a much harder view. The points which emerged from our discussions were:

(i) Francois-Poncet acknowledged that as part of a possible settlement some extra Community money could be spent in Britain on Community projects. This is, I think, the first time that the French have explicitly endorsed such expenditure. Francois-Poncet made clear, however, that he was thinking in terms of only a small amount of extra expenditure. He mentioned "a few millions" over 500 MUA.

(ii) The French do not contemplate settling our Budget contribution issue in March, at any rate on its own. Francois-Poncet said that there were obvious links with agricultural prices, the sheep meat question and progress towards a fisheries agreement. He also mentioned the political importance of some genuflection by us towards the Community on energy.

Agricultural prices may prove the most intractable item on this list.

/It

It would not be politically possible for President Giscard to return from the European Council with the British budget problem solved but with all these other issues outstanding.

(iii) Francois-Poncet made no mention of any "associate status" for Britain. But when I pointed out that there was bound to be a row if it proved impossible to reach agreement he said that we would run the risk of finding ourselves isolated and that the other members of the Community would "make other arrangements without us".

4. Frankly, none of this surprises me. Anything less intransigent would have been unexpected at this stage. The French are clearly digging in for a tough negotiation: there is still a wide gap between what we regard as an acceptable compromise and what they say they are prepared to consider, and we may have to head off firmly any attempt by them to delay a decision beyond the March European Council. But their insistence on delaying a settlement and increasing the linkage items may upset and irritate a number of our partners who share our wish to get the UK problem out of the way as quickly as possible and who will have to bear the main cost of the sweetners (eg on sheep meat) for which the French are looking. We shall need to take stock in the light of the Franco-German Summit, of the discussions I hope shortly to have with the Germans and of the Italian Presidency's efforts to move things forward in their bilateral talks with other Community partners.

5. I am sending copies of this minute to other members of OD, to Peter Walker, David Howell and to Sir Robert Armstrong.

Carrington

(CARRINGTON)

Foreign and Commonwealth Office

5 February 1980

Prime Minister
This is a factual summary of events in the Community.
MT 5/2

Foreign and Commonwealth Office

London SW1A 2AH

(2)

5 February 1980

Dear Michael,

White Paper: Developments in the European Communities 1979

The draft White Paper on 'Developments in the European Communities 1979' was circulated by the Lord Privy Seal on 21 January to members of OD(E) and other Ministers directly concerned. No comments were received, and the White Paper is now being printed and will be laid before Parliament at 2.00 pm on 8 February.

It has been the practice to publish these White Papers every six months, but because of the election in May, we decided to extend the time scale for this particular edition. We will now revert to the normal six-monthly cycle.

Why? why not annually.

The timetable for publication of this White Paper has been compressed to ensure its appearance at the earliest possible date in 1980 and in time for any general debate on Community issues we may wish to hold before the next European Council. It has not, therefore, been possible to consult Cabinet formally in the usual way before publication, but since those Cabinet Ministers directly concerned have seen and approved the draft, we are proceeding with arrangements to lay and publish.

I am copying this letter to the Private Secretaries to the Chancellor of the Duchy of Lancaster, the Chief Whip, the Parliamentary Secretary of the Privy Council Office, the Chief Press Officer (No 10) and David Wright (Cabinet Office).

Yours ever
G

(G G H Walden)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

Euro PD. Weekend Box Fin. Rmb (2)

Ref: A01332

CONFIDENTIAL

Prime Minister

MR. ALEXANDER

MT. Rmb

Community Expenditure in the United Kingdom

You may find it helpful to have this note on the extent to which existing Community expenditure in the United Kingdom affects current public expenditure decisions. This is relevant to finding ways of increasing Community expenditure which will reduce rather than increase United Kingdom public expenditure and which will not lead to greater Community control over it.

2. From the attached summary prepared by the Treasury you will see that our main receipts in 1980 are divided between agriculture (accounting for almost two-thirds of the total), the Regional Fund (approximately 18 per cent) and the Social Fund (11 per cent). The following paragraphs consider for each of the main categories how the existence of Community policies affects United Kingdom expenditure.

FEOGA Guarantee Expenditure

3. This expenditure (estimated at £454 million in 1980) constitutes the largest single block of Community expenditure in the United Kingdom. In part its purpose is market management, but its main importance is that it provides a source of income support for farmers, mainly through its effect of contributing to the Community policy of maintaining farm support prices above world price levels for the foodstuffs covered by the CAP. The categories of expenditure qualifying for Community support (which is uniformly 100 per cent throughout FEOGA Guarantee expenditure) are decided by the Council and laid down in Community regulations. Since these involve a degree of compromise, it is possible that the pattern of support (e.g. more for milk producers and less for hill farmers) is not what we would choose ourselves; but there is no reason to suppose that an equivalent domestic policy would involve a significantly different amount on public expenditure in the United Kingdom. The total amount of support for producers is to some degree within our control through the level of the Green Pound and through various national measures (liquid milk price, hill farm subsidies, capital grants etc.). A switch in policy from the market support

system of the CAP to deficiency payments would involve more public expenditure than now to give the same amount of income support, because part of that support is at present borne by consumers, who pay prices above world market levels.

FEOGA Guidance Section

4. This £37 million of public expenditure financed by the Community will stem mainly from national agricultural structures measures qualifying for support under the relevant Community Directives. The four main structural Directives for 1972 and 1975 simply provide for the partial reimbursement from FEOGA of expenditure under national schemes, although there is an element of additionality under the 1977 Regulation. While there is no reason to suppose that public expenditure on agricultural structures would be any lower in the absence of Community-financed structures expenditure, an increase in this expenditure sufficient to make a significant dent in our Community Budget deficit could lead to the support of projects which would not otherwise be undertaken - especially since the United Kingdom already has a highly capital-intensive farm structure. This is one reason why we discouraged the Commission from pursuing their ideas of last November that agricultural structure might be a suitable area for increased Community expenditure.

Regional Fund

5. The £145 million of Regional Fund expenditure expected in 1980 will be wholly in support of existing national regional expenditure, and no additionality is involved. Community expenditure in the United Kingdom could be increased if the rate of Community contribution was raised e.g. to 70 per cent but a significant increase which did not involve additionality would have to cover public capital expenditure programmes on regional infrastructure rather than projects which would qualify under the current Regional Fund Regulation.

Social Fund

6. This £84 million of expenditure will be fully absorbed within existing programmes and there is no additionality. But to increase our receipts under the Social Fund's detailed guidelines and rules sufficiently would almost certainly involve putting forward projects which would not otherwise have been undertaken.

Northern Ireland

7. This £33 million block of expenditure will be credited to existing public expenditure programmes in Northern Ireland and there is no additionality. We have suggested that the Community could substantially increase expenditure in the United Kingdom by paying a high rate of support for our capital expenditure on infrastructure and a somewhat lower rate on other expenditure in Northern Ireland. But this could not be done under existing Community funds.

Community-financed Expenditure on Research

8. The Community is expected to finance about £8.5 million of our public expenditure on research in 1980 by means of payments to United Kingdom research establishments. Not all the projects involved would have been undertaken in the absence of Community support. This expenditure could not be a source of major expansion of United Kingdom receipts, partly because it does not accrue to the Exchequer.

D. J. Wright

(D. J. Wright)

5th February 1980

Summary table of replies to the extent of EEC impact on UK Policies

Fund	Amount in 1980	Claim Procedure	Vetting Procedure	Additionality	Policy influence [3]
Social Fund	£84m	All applications channelled through DE. Recipients Home Office, NIO, LA, NI, ITB's. Accepted target for UK share 25%	Detailed guidelines agreed by Member States	No, insofar [1] as support replaces preferred policies anyway	Claimed that expenditure plans have been unaffected by Community spending. Expenditure by non-Govt. Dept. Could rise as a result of EEC funds but does not affect PSBR.
Regional Fund	£145m	Payments & claims Govt. Depts. only. Quota of 27% allocation for 95% fund.	Projects funded, not programmes	No [2] additionality	No policy influence with present size of fund
Energy, Transport, & Industry Research Support	£8.5m	Claims and payments direct to Private and Public research organisations and Nationalised Ind.	Payment contingent on research report and scientific vetting. A case for assistance has to be made	Full additionality in general except for NI Fusion research obtains £3 out of every £10 from Commission	No policy influence claimed mainly because schemes involved are small. Private bodies and NI may well change behaviour as a result of EEC support
Northern Ireland	£33m	Northern Ireland Office claims payments through Northern Ireland Office but end up in Northern Ireland departments	As in Regional Fund and Social Fund	No [2] additionality	No policy influence

Cont'd..

FEOGA					
1 Guarantee	£454m	IBAP claims; individuals receive payments	No vetting. Audits are rigorous	No technical[4] additionality	All schemes are 100% EEC financed
2. Guidance	£37m	Agricultural depts claim	No vetting	Some additionality	FHDS capital grants scheme introduced and geared to receipts under farm modernisation directive
a) capital grant					
b) individual projects		Individuals apply but applications & payments are channelled through Agricultural dept.	Proposals judged on individual merit	Some additionality	Schemes are only partly EEC financed. To qualify scheme must be first undertaken by national governments and therefore there need be no additionality if schemes only constituted preferred policies

1. The objectives of the Social Fund are to promote additional spending in the agreed policy areas. The criteria for fund priorities include additionality and especial priorities are given to new policy areas. This suggests that problems of additionality are inherent in the Social Fund but they may be more or less dormant at present levels of spending.
2. At present size of regional fund no problems of additionality arise.
3. While respondents have suggested that there is little direct policy influence - nevertheless the possibility of EEC receipts has been included in the arguments about which expenditure areas should be contracted and which expanded or left alone.
4. Separate PESC provisions already made for IBAP expenditure though financed by EEC. However, increased receipts from the EEC in respect of Guarantee can only be obtained by raising IBAP expenditure so that the PSBR would not be reduced.

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Euro Pol B

Top copy: Euro Pol, July 79, PM's mtg with Mr James Scott-Hopkins

10 DOWNING STREET

From the Private Secretary

5 February 1980

Call by Mr. Scott-Hopkins

As you know, the Chairman of the European Democratic Group, Mr. Scott-Hopkins, called on the Prime Minister this morning. He has just been re-nominated as Chairman of the European Democratic Group in the European Parliament. The Lord Privy Seal was also present.

Mr. Scott-Hopkins told the Prime Minister that the situation in the European Parliament at present was complex and confused. The lobbies of the MEPs were dominated by the twin issues of the Community budget and the Common Agricultural Policy. The MEPs were constantly reminded of the impact of their decision to reject the Community budget by the fact that they had lost 40 per cent of their funds. Fortunately the position of the members of the European Democratic Group was not too bad as the Group had a considerable sum of money (8 million Belgian francs) in its reserves. Mr. Scott-Hopkins said that his own expectation was that the European Parliament would not accept the new budget proposal which the Commission would be submitting to them. He thought that they would regard the proportion of the budget devoted to the CAP as still too large.

On the CAP, he said that nobody in the European Parliament liked it. The German Members, of all political complexions, would join the members of the European Democratic Group in pushing for reform. Only the French were united in opposing reform. The Prime Minister asked whether there would be support for a proposal to write in to the Community budget a limit on the proportion of the budget devoted to the CAP. Mr. Scott-Hopkins said that the Parliament had tried to do this but Ministers had been unwilling to agree. He thought there would still be difficulties with the French, the Irish and the Danes. On the general question of agricultural surpluses, Mr. Scott-Hopkins said the real problem was with milk. He was less concerned about sugar since he thought that by 1983 there would be an excess of demand, world-wide, over supply.

In reply to a question from Mr. Scott-Hopkins, the Prime Minister said that she did not think there would now be an early meeting of the European Council. There would be no point in such a meeting unless agreement was in sight. The planned meeting on 31 March/1 April fell within the present financial year and could therefore produce results which could be taken into account in the next financial year. This was the essential point for her. She expected the March meeting to be a very difficult one. As regards possible

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/ solutions to

solutions to the budget issue, the Prime Minister said that the situation was more or less clear on the contributions side but that we required a great deal more on the receipts side. There would have to be schemes specially tailored for the UK: she mentioned coal, transport, Ulster, and redundancy and run-down payments in the steel and shipbuilding industries. Whatever money was produced would have to be in substitute for expenditures already being incurred.

At the end of the conversation the Prime Minister repeated that it was essential that the UK obtain a satisfactory solution. She did not wish to be driven to withholding our contributions. Mr. Scott-Hopkins said that he also hoped that it would not be necessary for Britain to withhold contributions but that this was the only real weapon that Britain had.

I am sending copies of this letter to John Wiggins (HM Treasury) Garth Waters (MAFF) and David Wright (Cabinet Office).

MSDBA.

Michael Richardson, Esq.,
Office of the Lord Privy Seal.

Mr Alexander

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

4th February, 1980

Dear Tim,

You will wish to know that the next issue of the Treasury's Economic Progress Report, due out on Wednesday afternoon this week, will contain material on the UK's excessive net contribution to the Community Budget. I attach a copy of the proof version. You will see that the article has been confined to giving background factual information; it has not attempted to make a more "political" presentation of the case. Your Press Secretary already knows about the article from Peter Davies here.

Yours

John

(A.J. WIGGINS)

T. Lankester, Esq.,
Private Secretary,
10, Downing Street

Economic Progress Report

Published by the Treasury

No. 118 February 1980

The UK's contribution to the Community Budget

At the time of the negotiations, in 1970, about the United Kingdom's entry to the European Economic Community, there was concern that the Community's way of raising revenue (the 'own resources' system*), together with the predominance of agriculture in Community spending, would result in the UK making a very large net contribution to the Community's Budget once the transitional period ended late in the 1970s. It was then held in the Community that such fears were exaggerated. It was said that calculations for a period 8 or more years ahead were theoretical and it was likely that the Community would adopt new policies which would reduce the proportion of the Budget taken by agriculture to 60 per cent or even 40 per cent. This would reduce the UK's prospective net contribution, because Britain's receipts under the new policies would be higher than those from the Common Agricultural Policy.

However, the original Member States agreed that 'should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions' (paragraph 96 of Cmnd 4715, July 1971).

The development of the UK net contribution

Britain joined the Community on 1 January 1973. In the first year of membership it made a net contribution of just over £100 million. There followed 2 years, 1974 and 1975, in which the United Kingdom's accounts with the Community were roughly in balance. But by 1976 the British net contribution had risen again to over £150 million. By 1978 it had reached £800 million and in 1979 £900 million.

Between 1973 and 1979 the UK's payments to the Community were governed by the so-called 'transitional arrangements', which provided for the phased introduction of the full UK gross contribution under the Own Resources system. In 1980, for the first time, the UK net contribution will reflect the unmodified effect of the Community's budgetary arrangements on the UK's transactions with the Community.

Comparison with other Member States

Table 1 is based on the European Commission's latest available estimates of the net positions of Britain and the other Member States in 1980. These estimates were made in the early autumn of 1979. The difference between columns 1 and 2 and 3 and 4 respectively lies in the differing attribution of the benefit of the Monetary Compensatory Amounts (MCAs) paid on agricultural exports from other Member States to the UK and Italy. The UK believes that these payments must be regarded as subsidies to producers in the exporting Member State, since they allow their higher cost produce to compete in lower price markets. On this basis, the presentation in columns 1 and 2 is correct. But on either treatment of MCAs the UK emerges as the largest net contributor by a substantial margin.

The UK as the major net contributor

On present policies, the UK would make about 60 per cent of the total net contributions to the Community Budget in 1980. But as Table 2 shows, the UK's GNP per head is the third lowest in the Community.

Table 1

NET BUDGET POSITIONS IN 1980

	Exporter benefits from MCAs		Importer benefits from MCAs	
	£m	EUA m	£m	EUA m
Net contributors				
UK	1,209	1,814	1,035	1,552
German Federal Republic	699	1,048	738	1,107
France	13	19	80	120
Net beneficiaries				
Luxembourg	195	292	195	292
Denmark	247	370	189	283
Netherlands	281	422	239	359
Ireland	342	513	291	436
Belgium	367	550	359	538
Italy	489	734	581	871

Source: Commission Reference Paper on Budgetary Questions. EUA amounts converted to sterling at an exchange rate of £1 = EUA 1.5

GNP per head is widely accepted as the best available measure of a country's ability to pay. But in 1980 the UK is expected to make a net contribution 40 per cent greater than that of Germany, although German GNP per head is very nearly twice as high.

Causes of the high UK net contribution

The UK's disproportionate net contribution results from the interaction of two factors: a high gross contribution and a low level of receipts from the Community Budget. Table 3, which relates the UK share of gross contributions and of Community expenditure (UK receipts) to its share of Community GNP, shows that rather over 1/3 of the UK's net contribution is attributable to the excess of its gross contributions over its GNP share. The remaining, greater, part of the net contribution arises from the low level of Community spending in the UK.

*The Community's Own Resources consist of the duties levied on imports entering the Community from third countries under the Common External Tariff, levies charged on agricultural products from outside the Community to bring their prices up to the fixed levels prevailing under the Common Agricultural Policy price support regime, and the yield of a notional VAT rate of up to 1 per cent on a harmonised Community base.

Table 2

GNP PER HEAD AT MARKET EXCHANGE RATES 1978

(Community = 100)

Denmark	143.7
German Federal Republic	136.7
Belgium	128.9
Luxembourg	125.8
Netherlands	123.1
France	116.1
UK	72.6
Italy	60.2
Ireland	49.6

Table 3

ANALYSIS OF UK NET CONTRIBUTION IN 1980*

	£m	*as % of Community total*
1. UK gross contribution	2,075	20.5
2. UK gross contribution if in line with UK share of Community GNP	1,621	16.0
3. UK receipts	866	8.5
4. UK net contribution (1–3)	1,209	
		as % of total net contribution
Of which: Excess gross contribution (1–2)	454	37.5
Deficient receipts (2–3)	755	62.5

*Exporter benefits attribution of MCAs

Source: Commission Reference Paper on Budgetary Questions

The level of UK payments to the Community under the Own Resources System reflects its exceptionally open economy, heavily dependent on imported food and with worldwide trading connections. The UK contributes almost a quarter of the Community's total revenue from tariffs and agricultural levies.

On the receipts side, the UK's meagre share in Community spending results from the continued domination of the Community Budget by expenditure on agricultural support. The Common Agricultural Policy absorbs over 70 per cent of the total Budget, most of this being attributable to the cost of storage and disposal of agricultural surpluses. The UK's small farming sector can never attract more than a small share of such expenditure, in 1980 its share of Community spending on price support is forecast to be no more than 5½ per cent. In other areas of Community expenditure, for example the Regional and Social Funds, Britain does better. But since these two funds account for only 7½ per cent of Community expenditure, even the UK's prospective 26 per cent share from them, which is 5½ per cent higher than its contribution share, would yield Britain a net gain of only £45 million. The British net contribution to the cost of agricultural price support measures is 25 times this size.

The 1975 Financial Mechanism

To be effective, any measures to reduce the UK's net contribution must take account of both the factors that have brought it about. So far, the Community has considered only the contributions side. In 1975 arrangements were made which, under certain circumstances, would serve to reduce the UK's gross contribution through the so-called Financial Mechanism. This states that: 'conditions incompatible with the proper functioning of the community could arise when a member state's economy, whilst in a special situation, is forced to bear a disproportionate burden in the financing of the Community Budget'. It provides that a Member State with a GNP per capita less than 85 per cent of the Community average, and a growth rate of per capita GNP less than 120 per cent of the Community average, should, subject to certain further conditions, be entitled to a partial refund of its gross contributions related to the difference between its share in total gross contributions and its share in Community GNP. The UK has met the relevant economic conditions in every year since the mechanism was agreed, but the other conditions have so far prevented it from receiving any benefit.

Own Resources

Despite the existence of this Financial Mechanism, which specifically acknowledges that high Own Resources payments may impose an undue economic burden on a Member State, it is sometimes argued within the Community that the UK's case rests on a misrepresentation of the true nature of these revenues. According to this view the imposts which make up Own Resources are the Community's legal property and cannot properly be regarded as 'a contribution' by the individual Member State in which they happen to be collected.

The legal status of Own Resources is not in dispute. They do belong to the Community. But as the Financial Mechanism recognizes, they can be the Community's property and still represent a burden. They are an economic burden on the UK because they remove resources which could otherwise have been employed in the UK, for the direct benefit of its people. And the fact that they are the Community's own resources does not rule out deploying them in a balanced and equitable way.

Trade patterns

It is also sometimes argued that the UK could solve its problem if it avoided levies and duties by importing less from outside the Community. For its part, the UK scrupulously observes the system of Community preference which the Common External Tariff embodies; this gives exporters in other Member States an advantage in the UK markets over producers elsewhere.

The Treaty of Rome did not set out to make the Community into a closed trading zone. But the UK has already reoriented its trade towards the Community. The share of total imports coming from the Community rose from 31.6 per cent in 1972 to 38 per cent in 1978. The increase for manufactures, excluding transport and machinery, was even sharper, from 28.3 per cent in 1972 to 39.6 per cent in 1978. Comparable figures for food and drink show a rise from 32.4 per cent to 42.9 per cent. Such a reorientation is not reflected in the experience of other Member States in these years.

In any case, the trade pattern affects only the contributions: the argument is irrelevant to the low level of UK receipts from the Community.

North Sea oil

Another argument often heard is that UK energy resources enable us to sustain without difficulty a net Budget contribution of the size forecast for 1980. There is a second argument that every time the oil price rises, there is a very large additional benefit to the UK. Both arguments ignore the fact that although North Sea oil is of great benefit to our economy, the UK remains primarily a trading and manufacturing nation and a major consumer of oil and other forms of energy. In 1979 total North Sea oil output represented only 2 per cent of UK GNP, or less than half the growth of the German and two-thirds the growth of the French economy in that single year. The UK remains a net importer of oil and is likely to be in that position throughout 1980. So oil price increases continue to harm our economy directly (even if they harm us less than others), and they cause major damage indirectly because they add to inflationary pressures and reduce world growth and trade. As a nation with 30 per cent of GNP in exports, we suffer substantially from reduced world growth.

North Sea oil in no way removes the case for reducing the UK's present inequitable net contribution to the Community. GNP and GNP per head remain the valid tests of ability to pay, and are recognised as such in the present Financial Mechanism. The benefit of North Sea oil is fully reflected in both GNP and GNP per head. Even taking account of North Sea oil, the UK's ranking in the Community GNP per head table is unchanged.

The discussion in Europe

At the meeting of the European Council in Dublin in November 1979 the Council agreed, as regards the contributions element, that the 'adaptation of the Financial Mechanism could constitute a useful basis for a solution'. As for the receipts element, the Council requested the European Commission to put forward proposals for developing 'supplementary Community measures within the United Kingdom which will also lead to greater participation by the UK in Community expenditure'. These aspects will be followed up at the next Council meeting, the date for which is to be suggested by the Italian Presidency.

SHEFFIELD

P.M. has already had an account from the DOW.
F.A. 4/2

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

31 January, 1980

Dear Michael,

Mr. Christopher Tugenhadt spoke to the Conservative Party Finance Committee on 22nd January. Peter Cropper here, who was present, made a record of the discussion, which the Chancellor thought the Prime Minister might like to see.

I am copying this letter, and Peter Cropper's note, to Michael Richardson in the Lord Privy Seal's Office.

Yours ever

John Wiggins

A. J. WIGGINS

M. O'D.B. Alexander, Esq.,
No.10.

CONSERVATIVE PARTY FINANCE COMMITTEE 22ND JANUARY 1980

1. The meeting was addressed by Mr Christopher Tugendhat.

2. Mr Tugendhat delivered an impressive and encouraging assessment of the UK's position in the European Community.

3. In May 1979, when the Conservative Government took office, there was little understanding among the other Community members - even at Government level - of the way the British contribution to the EEC budget had developed. Continental reaction tended to be:

(i) Britain renegotiated quite happily in 1975. Why were the British griping a mere four years later?

(ii) The British were always complaining about something.

(iii) The poverty argument was rather pathetic. What Britain needed was to pull its socks up.

(iv) Why all this fuss about the CAP: Britain had never used its veto on farm prices.

However, British politicians understood the issue and in Mr Tugendhat's view it was entirely legitimate for them to bring it out into the open.

4. But these attitudes meant that it was very difficult for the incoming Government to (a) get recognition of the problem and (b) obtain a solution. Time was really needed, but time was not there. So risks had to be taken in using forceful methods to gain attention.

5. At this juncture the Commission helped by producing an assessment of the problem which was likely to be accepted by member countries as impartial. This key report confirmed the

existence of the problem; it had not been easy to produce.

6. The Community is a big concern. "It cannot turn round on a sixpence." For the solution of its problems it tends to need an atmosphere of urgency and crisis. But these crises must not be allowed to get out of control. In Mr Tugendhat's view Mrs Thatcher had judged the situation absolutely correctly at Dublin. "I do not believe any other method would have secured more at Dublin." But the crisis was not allowed to boil over.

7. Mr Tugendhat then added: "Post-Dublin, ideas are being considered that were inconceivable a few months ago." In particular, Dublin had two tangible results:

(i) It took the wraps off the machinery negotiated by Wilson;

(ii) It gave clear instructions to the Commission to increase expenditure in Britain.

8. He also reminded Members that the imminent exhaustion of "Own Resources" meant that there would soon have to be a general review of the Community financial structure in any case.

9. In his view the solution must:

(i) be such as the Prime Minister can sell;

(ii) be such as to enable the UK to exert the leadership that it has conspicuously failed to give so far.

10. In question and answer:

Tony Marland asked whether the CAP could not be debudgetised.

Mr Tugendhat regarded that as a policy of despair he preferred a much more vigorous price policy with nationally financed income aids to farmers, paid by national governments, and lower market prices.

Brandon Rhys Williams asked whether expansion of the Community's capital programme was not the answer to Britain's problem.

Mr Tugendhat. No, the time scale is too long.

Jack Page. "It all seems so obvious. Are you surprised at the results of the renegotiations?"

Mr Tugendhat. It was always foreseeable that the UK would have problems with the CAP and the customs levy. But I do not think anyone foresaw how the CAP cost would rise out of control.

Michael Shaw. "I always felt that the Council resented the partnership of the Parliament. It this still the case?

Mr Tugendhat. I go along with Micheal Shaw, but I believe the way the Council works is a recipe for disaster. Finance Ministers meet. Farm Ministers meet. But nobody answers for the totality of the result.

John Osborne. "What happens now on the Budget?"

Mr Tugendhat. The Council will hopefully conclude its work on agriculture in April and that would suggest finalisation of a new Budget in June or July.

Chris Patten. "How much worse does the imbalance become by the drop in grain prices."

Mr Tugendhat. We do not know yet, but if American diverts its wheat away from Russia and into other parts of the world that will undoubtedly have an effect.

Esmond Bulmer. "What is the degree of rapport between British Civil Servants and the Commission?"

Mr Tugendhat. I am not aware of any particular problem. But of course, by definition, we have fewer people in top positions who have personal experience of the EEC game. This will rectify itself with time.

Ray Whitney. "What about this energy tax?"

Mr Tugendhat. Certainly it is on the Community agenda, but

the time scale is far too long to provide a settlement of the present UK problem. The Commission will be coming forward with ideas shortly, and the Community President is likely to refer to the subject in February, in his annual "speech from the Throne". A levy on energy could well be to the UK's advantage, but a lot depends on whether it is a levy on imports or consumption of energy, and on how the proceeds of the levy are disbursed.

PC.

PETER CROPPER
24th January 1980

Ref: A01274

CONFIDENTIAL

PRIME MINISTER

Cabinet: Community Affairs

You will wish to inform the Cabinet of the outcome of your talks with Signor Cossiga on 29th-30th January, especially on our Community Budget problem. The Foreign and Commonwealth Secretary will be meeting his French counterpart at the weekend.

2. The Minister of Agriculture might report on the progress made at the 29th January Fisheries Council, at which agreement was reached on total allowable catches for 1980 and a system of catch reporting to enable these limits to be monitored. We also lifted our reserves on the signature of fisheries agreements with Spain, Norway and Guinea-Bissau.

RA

Robert Armstrong

30th January 1980

File B

Top copy filed on Italy (Jan 80) 'Visit of Cossiga'

10 DOWNING STREET

From the Private Secretary

30 January 1980

Visit of Signor Cossiga

Further to my letter to you of 29 January enclosing a record of yesterday evening's conversation between the Prime Minister and Signor Cossiga, I enclose for ease of reference the text of the piece of paper which the Prime Minister handed over.

I am sending copies of this letter and enclosure to John Wiggins (HM Treasury), Garth Waters (MAFF) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

KRB

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

UNITED KINGDOM BUDGET PROBLEM

1. The communique of the Dublin European Council provided the framework for a possible solution. There are no issues of principle outstanding. A satisfactory settlement might contain the following elements.

2. First, the removal of the existing constraints on the operations of the Financial Mechanism. The Regulation embodying this Mechanism (1172/76) should be extended with the existing review clause replaced by a new one with a similar timescale i.e. a review not later than the end of the sixth year.

3. Second, there must be supplementary measures, as foreseen in the Dublin communique, leading to greater participation by the United Kingdom in Community expenditure. We can decide on the method or methods in the light of the Commission's proposals. They would be subject to review at the same time as the Financial Mechanism.

4. Thirdly, we are willing to accept that the United Kingdom should be a modest net contributor to the Community Budget. The combination of the Financial Mechanism and the improved receipts in the UK from Community expenditure should be devised in such a way that the UK would remain a modest net contributor not only for 1980 but in future years.

5. The United Kingdom believes that its net contribution should be below that of the Member State having the next highest GNP per head in the Community. The difference should be at least proportionate to the difference in levels of GNP per head.

6. For the medium term, the European Council should instruct the Commission to make proposals for achieving a better balance within the Community budget and ensuring that, by 1986, the proportion devoted to the Common Agricultural Policy (FEOGA Guarantee Section) would not exceed 55 per cent of the total. The Council should take account of the effect of implementing such proposals on the United Kingdom's net contribution at the time of the review of the Financial Mechanism and the supplementary measures.

7. I hope you can agree that this would represent a reasonable compromise and will be willing to consult our partners on this basis.

→ Euro Pol (Budget)

Extract from a letter Mosser to Walder (FCO) 30.1.80 recording PMs conversation over lunch with Signor Cossiga

Top copy filed on Italy (Jan 80) 'Visit of Cossiga'.

Signor Cossiga explained, again, his preference for an early meeting with the President of the Commission, in order to ensure that the Commission's paper was in the right form, followed by a "pilgrimage" around Europe's capitals. He expressed some concern at the prospect of the Foreign and Commonwealth Secretary mentioning figures to M. Francois Poncet. The immediate result of this might be that the French would take up a defensive and unhelpful posture. The figures should not appear abruptly; to force the pace might be dangerous. Moreover it was essential that they should come from the Italians and be presented as a compromise developed by them rather than as a British proposal. Signor Cossiga said that he himself intended to say that he was unaware of any British compromise proposal. So far as he knew, the British were still asking for 1200 mua or more. The Foreign and Commonwealth Secretary said that he would stall in his forthcoming talks. The Prime Minister agreed with Signor Cossiga's proposed course of action but stressed that the figure of 250 mua which she had mentioned was her compromise. She had started from a position of broad balance i.e. the position which France already enjoyed, and had now agreed to be a net contributor. She did not want there to be discussions about a compromise figure for the British contribution lying between 250 mua and 600 mua. Signor Ruffini, to whom these remarks were addressed, said that he had taken the point!

Community Budget

The Foreign and Commonwealth Secretary said that there was a problem about the next steps in the discussions in Europe about the British contribution to the Community budget. He would be seeing the French Foreign Minister in a day or two; Chancellor Schmidt and President Giscard would be meeting early the following week; and he would be seeing Herr Genscher a few days subsequently. What should he say about the discussions that had taken place in London? In particular should he mention the figure for Britain's net contribution which the Prime Minister had given to Signor Cossiga?

/Signor Cossiga

CONFIDENTIAL

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→ Euro Pol (Budget)

JS

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10 DOWNING STREET

From the Private Secretary

30 January 1980

Top copy filed on Italy (Jan 80) 'Visit of Cossiga'

Dear George,

VISIT BY SIGNOR COSSIGA

I enclose the records of the Prime Minister's talks in restricted and plenary session with Signor Cossiga here this morning.

I am sending copies of this letter, and of both records, to David Wright (Cabinet Office); of the record of the restricted session only to John Wiggins (HM Treasury) and Garth Waters (Ministry of Agriculture); and of the plenary session only to Brian Norbury (Ministry of Defence).

Yours ever

Michael Alexander

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

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RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE ITALIAN COUNCIL OF MINISTERS, SIGNOR COSSIGA, AT NO. 10 DOWNING STREET ON 30 JANUARY 1980 AT 1000 HOURS

Present

Prime Minister	Signor Cossiga
Foreign and Commonwealth Secretary	Signor Ruffini
Lord Privy Seal	Signor Ruggiero
Mr. M.O'D.B. Alexander	Signor Berlinguer

* * * * * * * * * * *

Signor Cossiga said that he had examined the paper which had been given to Signor Berlinguer the evening before describing ways in which Britain's receipts from the Community budget could be increased. He noted that the areas mentioned included transport, coal mines, Northern Ireland and depressed urban areas. The Italian delegation had done some sums. They calculated that there was now a difference of 400 mua between what the Prime Minister had said she was prepared to accept as Britain's net contribution and the figure which, in the judgement of the Italian delegation, other members of the Community might at present be prepared to envisage. The Prime Minister commented that 400 mua was not a very large sum when divided among the other members of the Community. Signor Ruffini referred to the difficulty which the Italian Government might encounter with Italian public opinion when it became known that they were prepared to finance their share of the revised corrective mechanism. The Prime Minister observed that whenever people said that it was difficult for the other members of the Community to find the necessary money, they should be reminded how difficult it was for Britain to find the very large sums she was at present expected to contribute. She repeated that, despite the country's relative poverty, Britain was prepared to be a net contributor to the extent of 200-250 mua. This figure had been arrived at by reference to the contribution of the next richest member of the Community in terms of per capita GNP, i.e. France. The difference which existed, according to the Italian delegation, between this figure and that to which the other members of the

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Community would agree, was very large from the British point of view. It would be quite unreasonable to expect Britain to pay so much. It was necessary to be very clear about this. There was still a long way to go.

Signor Cossiga said that he was not suggesting that it was for Britain to bridge the gap. Nor did he intend to say that the British Government was prepared to make a net contribution of 200-250 mua. He would go no further than saying that he had the impression that HMG might be prepared to consider figures in this area but that he knew nothing for certain. The Prime Minister said that she would be content with this approach.

The Prime Minister asked how Signor Cossiga saw the tactics. She thought that Chancellor Schmidt held the key to the situation. It would be impossible to get a satisfactory solution without him. This was both because he would have to meet a substantial part of the cost of a solution and also because he would influence President Giscard. Signor Ruggiero said that France would be extremely interested in the cost to her of any solution. He recalled that President Giscard's support for the creation of a Regional Fund had only been secured by offering France a 21 per cent share in the Regional Fund. The key to the budgetary problem might lie in a settlement of the difficulties over a sheepmeat regime. Agreement on a sheepmeat regime would give France a useful sum of money. They might be prepared to regard this as an offset to the cost of a solution to the British problem. The French had always seen the Community as an organisation from which they should benefit. Increasingly they found themselves at a mid-point between the less wealthy and the more wealthy members. They calculated that, following enlargement, their position would be changed to that of a net contributor. For the moment they were seeking to preserve a position of balance in relation to the Community budget. A solution to the sheepmeat problem might make it possible to reconcile this objective with a French contribution to Britain's budgetary problem. The Prime Minister said that the sheepmeat issue could and should be solved. But a solution based on significantly increased intervention would

/not be

not be acceptable to Britain. Britain was the biggest producer of sheepmeat in the Community and should benefit from any regime. France was perfectly capable of solving her domestic problem herself. France was already in balance and was seeking to remain there: Britain was significantly poorer and was prepared to be a net contributor. She hoped that people in Europe understood the deep resentment in this country about the requirement laid on Britain to pay and pay for the Community budget. Signor Cossiga indicated that he understood. The Lord Privy Seal said that Britain recognised that a settlement of the sheepmeat problem on its merits would be very helpful to the budget negotiation as a whole. A heavy intervention regime would not be acceptable. But agreement could be found on a much lighter regime.

Signor Cossiga said that he wanted to speak clearly and frankly about Britain's membership of the Community. Not everyone had regarded Britain's entry favourably. Italy took the view that Britain's entry had made the Community a more balanced organisation. Italy had fought for Britain's entry because Europe's development without Britain was inconceivable. Italy was on very friendly terms with Germany and felt a great respect for France. But Europe was not comprised only of France and Germany. The Italian Government did not wish the present argument to develop involuntarily into a trap in which Britain would be pushed towards the edge of the Community. He did not wish to make any accusations or to judge the intentions of others. But in the search for a solution of the budgetary problem he intended to remind the other members of the political necessity of British membership. The idea of a special status for the United Kingdom was unacceptable to the Italian Government and they would reject it. Signor Cossiga said that, in pursuing a solution, he would not wish to appear as a partisan of the United Kingdom. He had to produce a solution acceptable to all the members. But he believed that the political argument was one which all the members would recognise. Europe could hardly claim a more powerful voice in world affairs while they were quarrelling amongst themselves.

/Signor Cossiga

Signor Cossiga said that on the economic side the principal problem facing the Community was the need to escape from the "infernal mechanism" which was turning the Community into a protected agricultural market. Britain's present position was the product of a distorted mechanism: Italy might well be the next victim. It was impossible to contemplate enlargement until the mechanism had been set right. The Community would have to have a general review of its functioning. The United Kingdom's difficulty was part of a general problem. Of course, a short-term cure for Britain's problem had to be found as well as a long-term cure. But it was as well to recognise that all the members of the Community were likely to fall sick. It was essential to prevent an epidemic. Looking at the problem in this way might make it easier to find the allies who would be essential if an answer acceptable to all was to be found.

As regards tactics, Signor Cossiga said that he intended to see the President of the Commission shortly. The Commission could not be allowed to prejudice the negotiations now in prospect. He did not intend to allow the Commission to interfere with the mandate he had received from the other Heads of Government in Dublin. Having seen Mr. Jenkins, he would go on to see Chancellor Schmidt and President Giscard. He would not, however, plan to meet with President Giscard until Chancellor Schmidt had had a chance to consult him. Signor Cossiga said that he would have a number of arguments to deploy in seeking Chancellor Schmidt's help. They had assisted each other in dealing with the Theatre Nuclear Force issue. They were the only two members of the Community to have a border with the Communist bloc. Italy's willingness to sacrifice 70 mua entitled them to ask for sacrifices from others.

Signor Cossiga said that in approaching Chancellor Schmidt he thought it essential that he should be in a position to say that the United Kingdom was not merely trying to solve its own problem but wished to put the Community in a position where it could act on the international stage and develop its own philosophy further. The Prime Minister said that the need for the Community

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to act together politically was a predominant element in her thinking. The Community had to approach world problems in unison. There was no question of the UK considering leaving the Community. No-one, she hoped, wanted them to leave. Equally, no-one was going to be allowed to push the UK out of the Community. What she expected from the Community was what every member was entitled to expect - fair treatment. Until the unfairness was removed, the Community would not be able to act together in the way the Prime Minister would wish. She much regretted this and had been particularly disappointed by the Community's response to the present crisis (Signor Cossiga agreed). The need for greater unity was very real. The Prime Minister said she was happy to leave it to Signor Cossiga to decide, against this background, when the next meeting of the European Council should be held. It was important that he should bear in mind the need to avoid another Dublin. The Prime Minister intended to be very firm about Britain's requirement. She did not want, for everyone's sake, to go through a similar experience again.

The Foreign and Commonwealth Secretary said that it was essential that the proposal which had been floated by the French for some kind of associate status for the UK should not be pursued. It was absolutely unacceptable to the United Kingdom. The longer it remained in currency, the less likely was it that a satisfactory solution to the budgetary issue would be found. Signor Cossiga said that he was completely convinced on this point. The Lord Privy Seal said that he doubted whether the French Government meant the proposal seriously. Although it had appeared in the French press, it had not been mentioned by Monsieur Francois-Poncet during his recent visit to Paris. The French probably saw the idea as a means of making it easier for them to adopt a rigid position on the budget. The Foreign and Commonwealth Secretary said that this was all the more reason for getting rid of the proposal.

Signor Ruffini said that he thought that an important step forward had been taken in the course of the talks between the

/two

two Prime Ministers. But he wondered if the discussion of figures could be carried a little further. Would it be acceptable for the Italians to indicate that there might be room for a two-stage approach? The first stage would involve the finding of 300 mua in ad hoc policies on the expenditure side of the budget, in addition to the 520 mua produced by the corrective mechanism. The second stage would produce an additional 400 mua in a well-defined period of time through further investment policies. Was it necessary for the problem to be solved all at once, or could a graduated approach be adopted? The Prime Minister said that she had to have an immediate solution. She needed a result during the British financial year ending on 5 April 1981. She did not disagree about the longer term problem. Indeed, if a way were not found to balance the budget more satisfactorily, the Community itself would not survive. But the immediate problem also had to be solved. It had been raised by Mr. Callaghan when he was Prime Minister. The situation had deteriorated steadily since. It was not fair to ask the United Kingdom to go on bearing such a burden.

The remaining members of the delegation joined the discussion at 1115.

30 January 1980

Top copy filed on Italy (Jan 80) 'Visit of Cossiga'.

Extract from Conversation PM/Signor Cossiga 29.1.80 at 1700 hrs @ No. 10.

The Community Budget

The Prime Minister said that until the budget problem was solved, it would be difficult for the Community to address itself to the other pressing problems facing the world. She therefore suggested that it should be the first item on their agenda. She thanked Signor Cossiga for the help which he had given her in Dublin at the previous meeting of the European Council. He had played a most helpful role in preventing a breakdown. He now had the task of deciding whether an early Council should be held. It was essential that the position should be "almost sorted out" before the Council assembled. It would be fatal for Europe to have another meeting like that which had taken place in Dublin.

The Prime Minister said that she was very anxious to resolve the problem. She had great economic problems at home. Inflation was running at 18 per cent. Expenditure had to be reduced. There had already been one round of expenditure cuts on next year's budget: there would have to be a second round. This meant that she had very little room for manoeuvre in seeking a solution to the budgetary difficulty. The meeting in Dublin had shown the way the problem should be tackled. The contributions could be dealt with through the removal of the existing constraints on the established financial mechanism. Action would be necessary on the receipts side of the budget since the UK's receipts were only a fraction of the Community average. The UK had proposed supplementary measures which would lead to greater expenditure in the UK. (Signor Cossiga interjected at this point that Italy vigorously supported the UK on this problem. Italy had been in the black in 1978, in the pink in 1979 and would be in the red in 1980. Something was not working properly.) The Prime Minister said that, thirdly, there would have to be a long term restructuring of the budget so that the CAP did not take up anything like its present proportion of the budget as a whole. This would take time but the attempt had to be put in hand. It would be three or four years before the proportionate expenditure on the CAP could be reduced to a reasonable level.

/ Signor Cossiga

Signor Cossiga asked whether this meant that the Prime Minister would be content with a solution that covered the next three years. The Prime Minister said that she would want a solution that would deal with the problem until Britain's per capita GNP had come up to the Community's average. She regretted that the British figure was at present so low: if Britain had more money, she would be prepared to pay more. Even so, she accepted that it was right that Britain should be a small net contributor. However that contribution ought to be below that of the member with the next highest GNP figure per head. The gap between the British contribution and that of the member immediately above it in the GNP ranking should be proportionate to the difference in GNP levels. This would mean a British net contribution of between 200 and 250 mua. This was not a large sum but it would be fair given Britain's economic position.

The Prime Minister said that she thought the message about Britain's budgetary problem was slowly getting through to the other members but it was a slow business. Britain's representatives were conducting the negotiations in a spirit of genuine compromise but they had little room for manoeuvre. Unless a solution could be found that was "somewhere near" the figure she had proposed or "in that range" there would be no point in an early meeting of the Council. She did not want the Community to tear itself apart in the present world situation. Signor Cossiga should be under no illusion about the gravity of the problem and about the reaction in this country to its continuance. Public opinion was conscious not only that Britain was contributing too much to the Community budget but that this was being done at a time when we were bearing a very full share of NATO costs and were keeping a large number of troops stationed in the Federal Republic.

The Prime Minister asked Signor Cossiga how he thought the situation was developing. Signor Cossiga said that such progress as had been made at Dublin had only been possible because of the strong line taken by the Prime Minister. He and his Foreign Minister, Signor Ruffini, had come to London determined to do what they could to help. They had three reasons for this:

(a) their country's friendship with the UK. This was a constant in Italian policy;

(b) the interests of the Community itself. Italy had fought to secure Britain's entry and would also fight to make her feel at home in the Community;

(c) the seriousness of the world situation as a whole. This demanded that the Community should show itself able to overcome its internal problems.

The Italians were better placed than many members of the Community to understand the British difficultybecause they had for long suffered from a similar problem themselves. They knew about the difficulty of justifying to domestic public opinion how money contributed to the Community was being spent.

Signor Cossiga said that he had a mandate from the Dublin Council meeting to ascertain whether the conditions existed for an early meeting. He did not regard the process of ascertaining opinion as a question of taking notes. He and Signor Ruffini intended to try to play a positive role. He had already seen the President of the Commission and, against the rules, the two Italian Commissioners. The Commission was producing a paper on 6 February. He intended, as he was entitled to do, to see Mr. Jenkins again before then. If in his judgement the Commission document did not constitute a possible basis for agreement, he would try to secure modifications in it - even if this involved his breaking the rules once more. So far as he knew, the document was more concerned with methods and figures. It seemed to him that if agreement could be found about methods this would be an important step in the right direction. Once the Commission document was available, he and Signor Ruffini would be prepared to travel throughout the Community to discuss it.

Signor Cossiga said that he thought the Community's budgetary policy was objectively mistaken: the greatest problem was the CAP. The difficulty about the CAP was that its application meant the member states were divided into winners and losers. It was the sort of policy which should not be conducted between states anywhere, and still less within the Community. Of course it was inevitable that countries should lose or gain in some aspect of their relationships with other countries. What was not acceptable

/ was to allow

was to allow a situation to arise where one country was a permanent loser and on every front. The final solution to the present difficulites lay in a permanent restructuring of Community policies. The difficulties derived from the distortion of those policies.

Signor Cossiga said that he recognised Britain's short-term problem but he did not think that it could be solved in a single year. At the same time, he recognised that the Prime Minister could not wait three or four years for a solution. It would be necessary therefore to work on two lines:

(a) a medium and long-term solution which would involve a modification of the budget. (The Prime Minister interjected that by 1985/6 the CAP should be reduced to 55 per cent of the budget); and

(b) a short-term solution which would tide Britain over the interim.

On the short-term issue, Signor Cossiga said that the first thing to look at would be the adaptation of the existing corrective mechanism. He recalled that he and Mr. Lynch had put down reserves on this in Dublin because they wished to be absolved from bearing their share of the cost. The Italian Government now intended to lift that reserve. This would cost them 70 mua, ie 50 per cent of what they had received on entering the European Monetary System. They had taken this step because of the importance they attached to resolving the British problem and in order to make a point to Chancellor Schmidt and President Giscard. If Italy could make a sacrifice, so could they.

Turning to the receipts side of the problem, Signor Cossiga said that action here would mark a beginning in the task of transforming the Community. There were areas where he thought Britain and Italy had common interests. They were both concerned to know more about how the money in areas of the budget other than the CAP was spent. However, the Prime Minister would be familiar with the resistance offered by the Commission to detailed examination of expenditure and receipts under this heading. But it would have to be accepted that money should be spent on things other than milk.

/ Signor Cossiga

Signor Cossiga said that an important weapon in his armoury would be the general political situation. Things were not the same as at the time of Dublin. The question of solving the British problem had taken on a new dimension. It was now a question of the Community's credibility.

Signor Cossiga asked the Prime Minister for her comments on what he had been saying. The Prime Minister said that she did not, of course, know what was in the Commission paper. But it was essential that it should attempt to solve the problem permanently, not merely for two or three years. It would be in the interests neither of Britain nor of Europe for the British Government to accept anything other than a full and proper settlement. This meant that a lot would have to be done in the immediate future. But it was worth recalling that the problem had been first raised by Mr. Callaghan and that by May she herself would have been in office for a year. Signor Cossiga acknowledged the point.

Turning to the longer-term, the Prime Minister said that the CAP had to be dealt with. If it was not tackled, it would break the Community. It made no sense to use the budget to create surpluses which were subsequently sold off cheaply. This was the Community's underlying fault. Signor Cossiga described the situation as ridiculous. The Prime Minister said that nonetheless some other members of the Community would fight very hard to retain the CAP in its present form. It would take a long time to sort out. It would be essential for Heads of Government to give a directive setting a timescale for the reform of the CAP: Signor Cossiga had spoken in Rome of allowing three years. Unless reform was achieved, the problem now afflicting Britain would affect someone else.

The Prime Minister said that she doubted whether the problem would be resolved in three years. She had noted that Mr. Jenkins had thought in terms of the corrective mechanism being perhaps extended for one year beyond its due date in 1982. This would not be enough. The corrective mechanism would have to be extended for three further years, ie for six years from now. At the end of that time it should be reviewed again. There were thus two things that needed to be done to the corrective mechanism: the existing

/ restraints

restraints had to be removed and it had to be extended for three years beyond 1982.

This, however, could only be one part of the solution. Receipts had to be increased. Britain was asking that the Commission should identify ways in which more money could be produced. It was difficult to put a figure on how much would be required because the figures changed from year to year. The best ways to express the British requirement might be to say that receipts should be increased in such a way that in the end Britain was a net contributor of about 200/250 mua. If Britain's GNP increased, Britain would be prepared to contribute more. However, the calculation was not, of course, based exclusively on the GNP criterion. If it had been, Britain would be entitled to be a net beneficiary. The Prime Minister said that she did not want anyone to be under the illusion that she would be prepared to settle for a comparatively small sum in the coming year. She could not do so. She had to deal not only with Britain's domestic economic problems but also with popular resentment of the scale of the British contribution. She would not be prepared to settle for "a bit more than 520 mua". But she was prepared to agree that Britain should be a net contributor.

Signor Cossiga said that it would be essential for Britain and Italy to establish that their position was consistent with Community philosophy. After all, that philosophy did not envisage widening differences in the economies of member states. The great danger was that the British request would be seen as implying a lack of commitment to the development of the Community. Another problem would flow from the vested interests which had grown up around the present policies. A campaign to reduce the weight of the CAP and reduce surpluses would have to be fought in the name of the development of other areas of the budget. It would not be enough simply to criticise the CAP. New ideas would have to be advanced in order that others could see the prospect of sharing in the benefits. The attitudes of the European Parliament were relevant in this connection. The European Parliament might be an important ally. The arguments about preserving the rights of the existing Community institutions "smelt of milk". Signor Cossiga said that he thought that it was very important that he should be

 / able to say

able to say in his discussions in Europe that the UK did not consider its difficulties as internal but as an aspect of the development of the Community. If, for instance, he could make this point it would ensure that Britain was not isolated in the European Parliament: indeed it would encourage the Parliament to make an effort on Britain's behalf.

The Prime Minister said that Britain's search for a solution to the budgetary problem displayed no lack of commitment. Indeed, it could be argued that the lack of commitment was being shown by the wealthy members who were refusing to pay their share of the budget. Britain, although among the less wealthy, was prepared to contribute. Britain believed in the Community. The Community had a great role to play in the world if the members could stick together. It was in this belief that Britain had tried to give a lead in tackling the present crisis in South West Asia. Her instructions after the European Council meeting in Dublin had been that work shoul d continue as normal in all organs of the Community. Discussions on fish and energy had continued as before. It was regrettable that the sheepmeat issue had not be resolved but Britain had not been obstructive. British representatives had pursued the effort to find a common approach. The Prime Minister said that Signor Cossiga's reference to the European Parliament raised a difficult question. The Parliament wanted more powers. It was doubtful whether it should have them. But it was important to listen to the Parliament. Shortly before the European Council in Dublin, the United Kingdom had voted with the Council of Ministers against the Parliament and British MEPs had been extremely angry. The Prime Minister felt that she had let the MEPs down without improving her case in Dublin. She regretted the incident.

Signor Cossiga said that it would be very important psychologically to be able to show that progress had been made in dealing with energy, fish and sheepmeat. What was achieved in these areas would be weighed against what was achieved on the budget. It would be very helpful if Britain could be seen to be taking a positive attitude. The Prime Minister repeated that Britain had not been negative on sheepmeat or on the other problems. On the contrary, British representatives had been co-operative.

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She had incurred a good deal of criticism as a result. Signor Cossiga commented that it was essential to stop a tendency which was developing for Heads of Government to fill that role only within their own countries. No-one knew, for instance, what Ministers for Agriculture had got up to at their meetings. He sometimes thought they were the only ones with real power in the Community at present. Decisions of Heads of Government had to be respected. It was not enough that they should only be valid if endorsed by other Ministers. The Prime Minister agreed.

Signor Cossiga asked for further details of British thinking on ways in which action could be taken in those parts of the budget dealing with structural policy in order to increase Britain's receipts. The Prime Minister undertook to let him have the details the following day.

The discussion ended at 1940.

29 January 1980

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Euro Pol.

SECRET

Ref. A01222

PRIME MINISTER

OD: Community Budget: Follow Up to the Dublin European Council

The OD meeting on Friday morning was foreshadowed in the informal meeting you chaired on 21st December, at which it was agreed that Ministers should consider in January a report on the Lord Privy Seal's bilateral consultations as well as the result of further work by officials on withholding and obstruction. The same meeting agreed that OD(E) should consider the tactical handling of energy, fisheries and sheepmeat in relation to the budget issue; and OD(E) is meeting on 24th January for this purpose. Meanwhile the Commission's proposals for supplementary measures to increase our receipts are still awaited; their paper, which on present form is likely to come down in favour of a special fund for expenditure in the United Kingdom alone, is expected in the first week in February, i.e. after Signor Cossiga's visit on 29-30 January.

2. Friday's OD meeting will thus have two main purposes: to arrive at an agreed assessment of the relative merits of withholding v obstruction, so that any necessary further contingency planning can proceed; and to decide, in the light of the Lord Privy Seal's tour, what our next steps should be, starting with Signor Cossiga's visit.

3. OD has before it -

(a) a note by the Secretaries (OD(80) 5) covering a note by officials which is intended to guide Ministers through four annexed papers on obstruction, withholding, and their legal political consequences;

(b) the Lord Privy Seal's two minutes of 24th January reporting on his tour of Community capitals and suggesting the line to be taken with Signor Cossiga and thereafter.

EEC Budget: forms of pressure

4. The note by officials on forms of pressure suggests that it is not necessary for Ministers to take final decisions at this stage (paragraph 4); discusses three possible forms of obstruction and three means of withholding (paragraphs 5 and 6); summarises the advice of the Law Officers on the

implications of withholding in Community law and in domestic law, and draws attention to its political significance (paragraphs 7 and 8); reviews the scope for initiating action ourselves under Article 175 (paragraph 9); notes the counter-measures which could be directed against the United Kingdom and the FCO preference for "financial obstruction" (paragraph 10); records officials' inability to arrive at an agreed assessment about the risks, effectiveness or desirable sequence of the two courses of action (paragraphs 11, 12 and 16); summarises the most important of the agreed elements emerging from the annexes (paragraph 15); and identifies three key questions for Ministers (paragraph 17).

5. The absence of agreed official recommendations reflects a strong Treasury preference for withholding and an equally strong FCO view that obstruction can do the job equally well without attracting the adverse political repercussions they attribute to our acting outside the law. Tested against the three criteria of feasibility, effectiveness and wider implications, an objective assessment might run as follows.

(i) Withholding is feasible, because it is wholly within our control. It would be effective in the short term in enabling us to reduce our net contribution, but it would not bite on the rest of the Community for many months and cannot thus be expected of itself to drive our partners back to the negotiating table. Because it would be illegal and unprecedented neither its immediate effect on the negotiations nor its longer term political consequences would be predictable, and if prior domestic legislation were necessary to prevent a successful action in the United Kingdom courts, it would provoke still greater controversy at home and abroad.

(ii) Partial obstruction, limited to blocking new Community expenditure which did not improve our budget position, should be feasible if applied to the CAP price fixing (where the Luxembourg compromise originated) but would probably not work in the Budget context where majority voting is well established. If it can be made to work on the CAP price fixing it would soon hit our partners where it hurts (albeit at some cost to ourselves as well), and would thus constitute a genuine means of pressure.

As an accepted Community technique, operating within the law, it might be less offensive to Community purists than withholding and would not involve controversial domestic legislation. It could nevertheless sour the negotiating atmosphere and, like withholding, provoke counter-measures which could have the effect of isolating the United Kingdom.

The issue thus turns on the weight to be attached to the Law Officers' advice on the need for prior domestic legislation for withholding, and on the assessment of the political consequences which would flow from the two courses.

HANDLING

6. You might think it most useful to focus discussion straightaway on the questions raised in paragraph 17 of OD(80) 5, taking them one by one and inviting the views in particular of the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Lord Privy Seal, the Attorney General and the Lord Advocate.

7. You will want to elicit a clear answer in particular to the question whether prior legislation would be essential if it were desired to withhold; and if so whether the likely political and legal consequences are tolerable. If they are not, you may want to probe the feasibility and effectiveness of the obstruction option.

8. You may also think it helpful to establish whether the idea of initiating a case ourselves in the European Court under Article 175 (paragraph 9 of the note) is still a runner or whether it should be dropped. What do the Attorney General and the Lord Advocate think of the chances? We should in any case deploy at the political level the legal arguments developed by the Treasury to justify either obstruction or withholding, even if it was decided that the negotiating and tactical risks of an action under Article 175 were too great.

CONCLUSION

9. Subject to the discussion, you will wish to sum up a conclusion on the choice between withholding and obstruction. Whatever the choice is, officials should be instructed to work up a detailed plan for this purpose, covering the period from the next European Council to the end of the year. You will probably be able to conclude that the idea of initiating an Article 175 case ourselves should not be pursued, but that the arguments on which the case is based should be vigorously deployed.

Report by the Lord Privy Seal on his bilateral consultations

10. The main points emerging from the Lord Privy Seal's first minute of 24th January are -

(i) We now need to spell out in more detail what we mean by our readiness to negotiate in a genuine spirit of compromise within a limited scope for manoeuvre.

(ii) A continuing reluctance among our partners to contemplate arrangements for the United Kingdom lasting as long as our problem lasts and a marked preference for a limited period of 2-4 years with a review at the end of it.

(iii) The likelihood that a receipts mechanism will prove unacceptable.

(iv) A willingness to focus on special programmes to boost expenditure in the United Kingdom, as well as considerable support for medium term restructuring of the budget.

(v) The strong disposition of most other member states to look for a wider political settlement encompassing energy in particular and - for the French - sheepmeat.

(vi) We shall need to follow up the Lord Privy Seal's tour and the Cossiga meeting with intensive bilateral contacts. He does not favour the suggestion made by Sir Michael Butler of an informal meeting of Heads of Government in advance of the European Council.

Line to be taken with Signor Cossiga

11. The Lord Privy Seal's second minute of 24th January takes up paragraph 10(i) above, in the context of your earlier agreement that we should give Signor Cossiga on 29th-30th January an indication that we would settle for less than we were asking for in Dublin (Mr. Alexander's letter of 18th January to Mr. Richardson). Paragraph 6 of his minute considers three possible ways in which our revised demand could be expressed and Annex B combines two of them in a proposed note for use with Signor Cossiga. It expresses our requirement in terms of the net contribution we are prepared to pay and says that we should be below the French by the difference in relative GNP per head.

This produces a figure of about 300 MEUA (£200 million), for our net contribution in 1980, which is the figure the Lord Privy Seal suggests you give to Signor Cossiga.

12. The figuring in Annex A of the Lord Privy Seal's minute is, of course, based on the figures the Commission produced for Dublin. The Treasury expect the outturn to produce a higher United Kingdom net contribution (see Mr. Wiggins's letter to Mr. Alexander of ~~18th~~ 23rd January) but all estimates are necessarily speculative at this stage (there is no 1980 Budget because of the dispute with the European Parliament). There is no sign as yet that the Commission will produce revised figures and if we were to do so it would only lead to confusion. By stating how much we are prepared to pay rather than how much we want back, we avoid having to argue about the figures, and protect ourselves against the risk of higher figures. So we should stick with the Commission's figures at least for the time being. If necessary, the Chancellor could be asked to speak to this point.

HANDLING

13. I suggest you take both minutes together. In introducing them, you might invite the Lord Privy Seal to concentrate on the main points requiring decision. These are:

(i) the line to take with Cossiga

(ii) action thereafter.

But before discussing them, you might invite the Foreign and Commonwealth Secretary to report on the conclusions of the OD(E) meeting on 24th January about the related issues of energy, fisheries and sheepmeat.

14. On the proposed line for Signor Cossiga's visit you will particularly want the Chancellor of the Exchequer's views on Annex B of the Lord Privy Seal's minute. Is it agreed that we should tell Signor Cossiga that we would be willing to settle for a net contribution in 1980 of up to 300 MEUA (exactly how this should be conveyed could be discussed at the briefing meeting later)?

15. On next steps, are the Lord Privy Seal's suggestions acceptable? You may wish to give Sir Michael Butler the opportunity to give his views. You will want the Foreign Secretary's assessment. You will want to hear what Signor Cossiga has to say. In spite of his political difficulties, he will want to be helpful. We should encourage him to sell our proposition to the others, but not to put forward a compromise of his own without checking back with you. In any case we shall need to supplement these steps through private bilateral contacts of our own at high official level especially with the French and Germans, but also with the Dutch, the Commission, and of course the Italians.

CONCLUSIONS

16. You may be able to conclude that

(i) We should play the related issues in the way proposed by OD(E).

(ii) You would indicate to Signor Cossiga that we would be ready to settle for a contribution in 1980 of 300 MEUA; but that this represented a major step on our part in the hope that it would permit an early settlement on the basis that the question of duration could be satisfactorily resolved.

(iii) We should encourage Signor Cossiga to take soundings and report the result before deciding on the date of the next European Council. We should not propose a prior ad hoc informal meeting of Heads of Government or Foreign Ministers addressed solely to the budget question. But the Foreign Secretary and the Lord Privy Seal, in consultation with the Chancellor, should arrange further bilateral contacts at the most appropriate level with the main protagonists.

(iv) OD should meet in the middle of February to consider the Commission's proposals, on the basis of a paper by officials; and when the results of Signor Cossiga's soundings are known.

RtA

(Robert Armstrong)

24th January, 1980

Prime Minister

I am reporting to Cabinet today on the completion of my tour of the capitals of our Community partners to discuss the United Kingdom's net contribution to the Community budget. I thought it would be useful to let you and colleagues have a somewhat more detailed account of my impressions.

In general I think the tour served a useful, if limited, purpose. We have re-focussed our partners' minds on our budget problem at a time when they might have been inclined to give priority to other issues; we have achieved some kind of consensus in very general terms that efforts must now be concentrated on finding practical means to increase Community expenditure in the United Kingdom; and we have demonstrated our determination to get this matter settled in the next month or two.

The most welcome of the reactions I found almost everywhere was a matching wish to settle the matter at the next European Council, a stated political will except in Paris to go beyond what was on offer at Dublin and a clear recognition that it was in the Community's overall interest to find a satisfactory solution rapidly so that we could together face up to the other problems about us. I think the crises over Iran/Afghanistan are helping our cause in this way. Against this it is clear that none of our partners is yet thinking of figures which we would find reasonable, that there remain many doctrinal hang-ups about agreeing to the substantial and lasting solution we need and that the French, while they may not be playing a wrecking game, are certainly not going to make life easy for us or our

/other

other partners. But only the French dispute that the contribution side of the problem was effectively settled at Dublin.

The main points covered, with my own conclusions, are:

(i) Amount. Because I was not ready to say in round terms what we would settle for, nor were our partners; although I was questioned on this point, the matter was not pressed. But I think we need to recognise that, while a 'genuine spirit of compromise' and 'small room for manoeuvre' have served us well this far, we now need to give at least some indication that, for example, we are ready to see ourselves as modest net contributors. I have minuted you separately about the line I think you might take with Cossiga when he comes here next week.

(ii) Duration. This is going to be one of the most difficult issues. While I found a general recognition that it was in everyone's interest to solve our budget problem once and for all, I equally found an unwillingness to face up to the need for machinery which would bring about this desirable end. There is much talk of a fixed period of two, three or four years with a review towards the end of it of whatever arrangements we agree. This is closely linked with the next point.

(iii) A receipts mechanism. There is now a better understanding of our thinking on this point but there is not much support for it. There remain strong, doctrinal reservations in most capitals and also a short-sighted financial view that it could prove more expensive than an alternative approach. We must expect the French to play on these fears. I certainly do not think we should weaken in our advocacy of the idea as the best way of achieving a lasting solution. We may well gain ground as others see more clearly the shortcomings of other methods. But I think we need to continue to make it clear that we do not see it as the

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only solution; and thus avoid getting into a deadlocked issue of principle which will delay negotiation of the substance.

(iv) Increased Community Expenditure in the United Kingdom. Thanks to Dublin this is now the focus of our partners thinking and that of the Commission. The problems of achieving the objective by across-the-board increases in existing policies or new Community-wide expenditure programmes are well understood. So special programmes to boost expenditure in the United Kingdom are to the fore and will be even more so when the Commission proposals come forward at the end of this month, if, as we expect, they firmly endorse this approach. Some of the ideas we have given the Commission and the Member States (investment in coal, Northern Ireland) seem to be falling on reasonably fertile ground. If the idea of a mechanism were after all to prove possibly acceptable, it might help presentationally to link it with expenditure of this kind in the United Kingdom.

(v) Additionality. Not an issue which was much raised with me and certainly not one I raised. I think we can hope that this will remain a non-issue so long as we do not make too much of it in our own public statements at home.

(vi) Re-structuring the Budget. There is widespread support for this by most of our partners and I made clear that we were in favour. It seems now to be understood that re-structuring will not bring early or substantial benefits to the United Kingdom and that it does not therefore have a key role to play in solving our immediate problem. So I think we have nothing to fear from giving all-out support for the general objective and a good deal to gain, given the importance attached to it by some of our partners and the long-term interest we have in it ourselves.

/(vii)

(vii) Agricultural Prices and the Economy Proposals.
I made clear that we saw no justification for price increases for products in surplus, particularly milk. Many of our partners will find it hard to follow so rigorous a line, and they are all keeping their powder dry until the Commission makes its proposals next month. The French, at least, will then try to link a solution to our budget problem to certain assurances on the price package, if, as seems likely, that package cannot be agreed before the next European Council. On Gundelach's economy proposals I found some misunderstanding of our position and a tendency to interpret our problems over individual items as a negative attitude to CAP reform in general. I attempted to put this straight. It is very damaging to us in a number of important capitals (Bonn, Rome and The Hague in particular) if we are believed not to favour reform.

I think we have to make it clear, as we did in Bonn, that economy proposals from the Commission have to be looked at together with decisions on CAP prices, especially for products in surplus; and that the form of any agricultural economy package must not be such as to inflict differential damage on the United Kingdom. In our budget situation that would be clearly unacceptable and would impair, if not destroy, the principle that re-structuring of the budget should in the long term make a contribution to easing our budget problem.

(viii) The Linkage Items (Fish, Energy, Sheepmeat). Very few people owned up to being in favour of specific linkages themselves but all, without exception, were convinced that someone else (usually the French) would insist on them. The French fully bore this out by adding to the usual three, the rejected 1980 budget, agricultural prices and economy proposals. I stuck to our line about willingness to make progress on all subjects but need to treat issues on their merits.

/(a)

(a) Fish. Here I think there is a reasonably wide understanding that it might not be tactically in anyone's interest for a link to be made. So long as some progress continues to be registered in the Fish Council, then I think this one might fade away as a linkage candidate, although the French spoke of it in those terms.

(b) Energy. Mentioned by almost everyone as a necessary and desirable element in any settlement of our problem. Ideas are not very specific and there is less tendency than there was to peddle half-baked suggestions such as the United Kingdom selling oil cheap to our Community partners. Many see this as the crucial political element enabling them to say to their Parliaments and public opinion that there was a reasonable balance in any settlement with us. I am becoming more and more convinced that a unilateral statement by us on a number of ways in which we intended to take account of our partners' interests in operating our oil policies, could be of quite disproportionate political benefit at the European Council without involving any major commitments. Meanwhile our present line is a good way of up-valuing the card should we eventually decide to play it.

(c) Sheepmeat. This is the French and they alone. They seem now to be quite categorical as to linkage. I think we will eventually have to accept that and make the most of it in tactical terms.

So much for the issues of substance. I found little enthusiasm for an early, special meeting of the European Council, partly because no-one believed a solution would be in sight before the end of March but partly also because of a reluctance to go to a meeting devoted solely to our problem. We will have to talk this over with

/Cossiga

Cossiga next week but my feeling is that, while we should go on pressing for a settlement as early as possible, we should not make an issue of an early meeting.

On future procedure the picture is much less clear. Bilateral contacts are obviously going to continue to play a crucial, probably the crucial, role in the search for a solution. Others are now going to be more active - Cossiga plans to see Schmidt and Giscard, and we should encourage this, the latter two are meeting in early February, Jenkins is seeing Schmidt soon and will obviously be doing his usual pre-European Council rounds. We need now to reflect carefully how best to orchestrate our own bilateral contacts. Peter Carrington will be seeing François-Poncet the weekend after next. But beyond that we have not got very much planned. Certain multilateral procedures will no doubt grind into gear as soon as the Commission proposals are on the table but I doubt whether either the Foreign Affairs or the ECO/FIN Councils will contribute much to narrowing the gap. We will first need in any case to discuss future procedure with Cossiga and hear what he has in mind.

I have considered a suggestion that we might float with Cossiga the idea of an informal meeting of Heads of Government in February to prepare a definitive solution but, on balance, my conclusion is that the risks outweigh the possible advantages of such a course of action. The French in any case would not go along with it and we do not want to court a rebuff.

I am sending copies of this minute to Members of OD, to the Minister of Agriculture, Fisheries and Food, the Secretary of State for Energy, the Attorney General, and to Sir R Armstrong and Sir M Butler.

I.H.G.

24 January 1980

Copied to:- 4
Italy: Cossiga visit
Jan 80.

Prime Minister

COMMUNITY BUDGET : VISIT OF SIGNOR COSSIGA

Signor Cossiga was asked by the European Council to decide when the Council should reconvene to 'pursue the search for appropriate solutions' to the United Kingdom budget problem. When he meets you on 29/30 January he will be looking for some movement on our part. Without it, he is unlikely to be able to secure any corresponding movement from our partners. You have therefore agreed that we should give him some indication that we would settle for less than we were asking for in Dublin, although we should obviously not reveal a final position. In this minute, I suggest what our approach might be.

The absence of a Commission proposal is unfortunate, but if we are to get any value out of the meeting on 29/30 January, we cannot wait for it before we show something of our hand. In any case, we have a fair idea what they are likely to say, and they will almost certainly not propose a figure at this stage.

It will probably be better to set the indication of our figure in some slightly wider framework and, particularly because it is an Italian Presidency, in the context of medium term restructuring of the budget.

Our proposition could be expressed as the amount of reduction in our net contribution that we want (eg a refund of £800m instead of £1,000m) or as the level of net contribution we are prepared to pay. The latter is safer since we do not know exactly what our net contribution would otherwise be in 1980 (or later years). Moreover, there are presentational advantages in stating what we are prepared to pay rather than how much we 'want back'.

/Although

Although we are basing our calculation on figures for 1980, we are asking for a solution which lasts. We could not expect to get an absolute ceiling on our net contribution irrespective of developments, but we do need a continuing limitation on its future growth.

Taking these considerations into account, the possible ways in which we could express our requirement seem to be:

(i) that our net contribution in 1980 should not exceed, say, 300 meua and should not grow faster than the Budget as a whole in future years; or

(ii) that our net contribution should not exceed a given proportion of our GNP; or

(iii) that our net contribution should be linked in some way to that of the French (how this might be done, with the necessary calculations, is in a separate note at Annex A).

Each of these has some merit as an indicator of what would be acceptable to us. We would not be asking for them to be written into any legal text, but that the revised Financial Mechanism and whatever is agreed for measures on the receipts side should together produce that result. Option (i) is the simplest; option (ii) has some economic logic but would be criticised as another form of juste retour; option (iii) taken by itself could turn the negotiations into too much of an Anglo-French battle.

Taking all this into account Annex B sets out the line I think we should take. It could be used as a speaking note, or possibly handed over. As you will see, it combines the ideas of (i) and (iii) in expressing what we are asking for. If it were decided to hand over a note, I think the figure we decide on should be given to him orally. If it is 300 meua (roughly £200m) then we would be paying about two-thirds of what the French would have to pay. This is what the draft implies because that is approximately the difference between the French GNP per head and ours. If we were

/to

to pay the same as the French we would make a net contribution of ~~£290~~ £304 million on the existing Commission figures. ~~and £368 million on the latest Treasury forecasts.~~ This is too high for an opening bid.

Annex B does not deal with the question of financing nor whether Italy and Ireland should be expected to pay. We want to remain neutral on this; but if it were thought necessary to give the Italians something, it would be possible to add an additional paragraph along the lines of:

> '5. Other member states with below Community average GNP should also benefit from supplementary measures so that their budgetary position was unaffected by the changes envisaged under (1) above.'

Nor does the note deal with the 1 per cent VAT ceiling. It is better from our point of view not to raise it specifically in the context of our Budget problem. If necessary, we can argue that it is covered by the Dublin remit to the Commission.

Finally, the note sticks to our existing line on the question of duration, ie indefinite, subject to review; but the reference in (4) is intended to establish a link between the special measures for the United Kingdom and progress with restructuring the budget.

I am sending copies of this minute to Members of OD, to the Minister of Agriculture, Fisheries and Food, the Secretary of State for Energy, the Attorney General, and to Sir R Armstrong and Sir M Butler.

I.H.G.

24 January 1980

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ANNEX A

UNITED KINGDOM 1980 NET CONTRIBUTION TO THE COMMUNITY BUDGET
COMPARISONS WITH FRANCE

1. On the existing Commission figures for 1980, the United Kingdom will make a net contribution of 1814 meua/£1225 million (exporter benefits) or 1552 meua/£1048 million (importer benefits). The corresponding figures for France are 19 meua/£13 million and 120 meua/£81 million.

2. If the United Kingdom and France were to make exactly the same net contribution, the result would be:

	meua	£m
mca exporter benefits	431	291
mca importer benefits	450	304

3. If we wish to propose that the United Kingdom should be a net contributor of the order of £200 million, then our net contribution would need to be approximately two-thirds of that of France. This could be justified on the basis of relative GDP per head (5786 eua in the United Kingdom and 8356 eua in France).

4. The figures in this annex assume that all Member States, including the United Kingdom, will contribute to our refund and our additional receipts.

ANNEX B

UNITED KINGDOM BUDGET PROBLEM:
NOTE TO BE GIVEN TO SIGNOR COSSIGA

Drawing on the conclusions of the Dublin European Council, the following basis of settlement is suggested:

(1) Removal of the existing constraints on the operation of the Financial Mechanism. Regulation 1172/76 to be extended indefinitely with provision for a new review clause not later than the end of the sixth year.

(2) Supplementary measures leading to greater participation by the United Kingdom in Community expenditure. The method or methods should be decided in the light of Commission proposals and be subject to review as in (1) above.

(3) The combined effect of (1) and (2) above should be such as to leave the United Kingdom a modest net contributor [say 300 meua in 1980]. The United Kingdom's net contribution should be in an appropriate relationship with the member state having the next highest GNP per head in the Community.

(4) The European Council should instruct the Commission to make proposals for achieving a better balance within the Community budget and ensuring that, by 1986, the proportion devoted to the Common Agricultural Policy (FEOGA Guarantee Section) would not exceed 55 per cent of the total. The Council should take account of the effect of implementing such proposals on the United Kingdom's net contribution at the time of the review called for under (1) above.

LORD PRIVY SEAL

Foreign and Commonwealth Office

Michael Alexander
No 10

I thought you might like to see this à titre personnel (Cogo's tel no 34 refers)

Michael
24/1 Richardson

PS/Lord Privy Seal

24/1

CONFIDENTIAL

Note for the Record

PS/Lord Privy Seal
PS/PUS
Lord Bridges
Mr Franklin - Cabinet Office
Sir K Couzens - HM Treasury
Dame Anne Warburton - Copenhagen
Sir M Butler - UKREP Brussels

Ks

Pms 24/1

UK BUDGET PROBLEM: DANISH ATTITUDE

1. I had a word with Ambassador Ersboell after dinner on 22 January in Copenhagen about the negative attitude of the Danish Prime Minister, of which the Lord Privy Seal had had further evidence that afternoon.

2. Ersboell said he had himself been disturbed to hear of the line his Prime Minister had taken. His advice was that we should not take it too tragically. He did not think that any direct contact between Mrs Thatcher and Mr Jorgensen was either desirable or necessary. It would be better to leave Danish Ministers and officials to work on Mr Jorgensen in the weeks ahead as we could be sure they would do. They would point out that things had moved on since Dublin; that the UK was showing a willingness to compromise; that it was in Denmark's overall interest that a fair solution should be achieved and that British membership should be firmly buttressed by acceptable budgetary arrangements; and, above all, that it was not for Denmark to make the running in a negative sense as had been the case in Dublin, but rather to leave the main roles to Germany and France. He concluded by saying that he was personally convinced that this point of view would prevail. But, if he had any doubts at a later stage, he would certainly warn us.

D H A Hannay

D H A Hannay

24 January 1980

CONFIDENTIAL

Original on:—
Cabinet Attendance.

Ref: A01213

MR. ALEXANDER

As I mentioned to you, the Attorney General has been invited to attend the meeting of OD on 25th January, when we shall discuss developments on the British contribution to the European Community Budget, including notes about the tactics to be followed in the event of an unsatisfactory outcome of the next meeting of the European Council.

2. One of the papers which the meeting will have before it is an Opinion by the Law Officers (the Attorney General and the Lord Advocate). The Attorney General has been invited to attend. I have received a request that the Lord Advocate should also be invited to attend on this occasion.

3. It seemed to both of us that it was desirable to keep attendance at this meeting reasonably small; and that, unless there was a significant difference of opinion between the Attorney General and the Lord Advocate - which does not emerge from the joint Opinion - or there was some specifically Scottish point of law involved, it should be sufficient for the Law Officers to be represented by the Attorney General alone. On enquiry I understand that there is no specifically Scottish point of law. Nor is there a real difference of opinion on the main question of the illegality under Community or domestic law of withholding; but I gather that the Lord Advocate may be ready to take a slightly more robust view of the implications of this than the Attorney General would be inclined to take.

4. Perhaps the major point is that the Opinion is a joint opinion on major and fundamental questions of law and the implications of breaches by the Government of the law, and, as the Lord Advocate made (he thinks) a large contribution to the preparation of the Opinion he feels that he should be able to be present when it is to be discussed by Ministers.

5. I doubt whether it is really necessary for the Lord Advocate to be present; but I also doubt whether, if he is keen to come, there is much point in incurring the odium of excluding him. I therefore recommend that I should be authorised to invite him to attend.

6. I should be glad to know whether the Prime Minister agrees.

ROBERT ARMSTRONG

23rd January 1980

Robert Armstrong

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

23rd January, 1980

Dear Michael,

COMMUNITY BUDGET

You wrote to Michael Richardson on 18th January about the paper by the Lord Privy Seal for OD which would incorporate a new line on our budget contribution for use with Signor Cossiga.

The Chancellor has asked me to say that, while he agrees with the Prime Minister's general approach, he would prefer to avoid putting a figure of £800 million into circulation at this stage. As you say, there are a number of different ways in which a concession of this kind could be formulated, and the Chancellor would prefer both that the formulation be indirect and that it should now be related to what we are prepared to pay rather than to the amount we want to recover. If we put a reduced figure of refund into circulation our partners will tend to look for a settlement halfway between that figure and their last offer to us; and our domestic opponents will measure our success, when a solution is ultimately reached, against both the reduced figure and the original £1,000 million. Moreover the forecasts of our net contribution for 1980 are tending to rise. If we concentrate attention on a refund of £800 million, we may find ourselves left with a net contribution exceeding £200 million, even on an "importer benefits" basis (which is not the one used in PESC).

The Chancellor therefore suggests that we should concentrate attention on our readiness (implicit in the "genuine compromise" formula) to accept a modest net contribution for the time being; and should go on to give an indication of scale by saying that our net contribution ought to bear the same relationship to that of France as our GNP does to theirs. That might produce a net contribution roughly of the order the Prime Minister has in mind since the French

/would become

M. O'D B. Alexander, Esq.,
Private Secretary,
10, Downing Street

would become moderate net contributors as a result of the redistribution of most of our present net contribution. There is a chance that our partners would accept the reasonableness of the proposition that our contribution should be below that of France, and there may also be credit to be had from concentrating on what we are prepared to pay rather than on our demand for recoupment - even if the result is in the end the same or better. We would also have to consider carefully what a "modest net contribution" approach would mean for the mechanisms we were seeking and for their duration.

I am copying this letter to George Walden (FCO) and Martin Vile (Cabinet Office).

Yours sincerely

John Wiggins

(A.J. WIGGINS)

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SECRET

GRPS 180A
SECRET
FM DUBLIN 231815Z JANUARY 1980
TO PRIORITY FCO
TELEGRAM NUMBER 36 OF 23 JANUARY
REPEATED FOR INFO PRIORITY ALL EEC POSTS

UKREP TELS NOS 332 AND 333: UK BUDGET PROBLEM

1. I RECOGNISE THAT MUCH WILL DEPEND UPON HOW THE LORD PRIVY SEAL'S TALKS WITH THE FRENCH GO, TODAY, AND WHAT HAPPENS DURING SIG. COSSIGA'S VISIT TO LONDON NEXT WEEK. IN ANY CASE, THE IRISH GOVERNMENT'S VIEWS AND ACTIONS ARE NOT VERY IMPORTANT COMPARED WITH THOSE OF THE FRENCH AND GERMAN.

2. SEEN FROM HERE, THE SUGGESTION MADE IN SIR M BUTLER'S TELNO 333 MAKES A LOT OF SENSE IF WE DECIDE TO PUT IT FORWARD AND OTHERS ARE PREPARED TO GO ALONG AS WELL. BOTH LENIHAN (FOREIGN MINISTER) AND O'KENNEDY (FINANCE) ARE NEW TO THEIR JOBS AND, MORE IMPORTANT, ON ANY MATTERS OF SIGNIFICANCE IN THEIR TWO FIELDS IT IS HAUGHEY WHO WILL LAY DOWN THE GUIDLINES AND TAKE THE DECISIONS.

3. I AM ALSO PRETTY SURE THAT IF THE FRENCH AND GERMANS AGREED WITH THE SUGGESTIN THE IRISH WOULD NOT DEMUR. (SEE PARA 1 MY TELNO 30 FOR HAUGHEY'S ATTITUDE TO AN EARLY EUROPEAN COUNCIL.)

HAYDON

FILES
HD/EID (I)
PS
PS/LPS
PS/PUS
SIR D MAITLAND
LORD BRIDGES
MR HANNAY

COPIES TO:
SIR R ARMSTRONG, MR FRANKLIN — CABINET OFFICE
SIR K COUZENS, MR JORDAN-MOSS, MRS HEDLEY-MILLER — TREASURY
MR WHITMORE, MR ALEXANDER — NO 10 DOWNING ST

SECRET

CONFIDENTIAL

Ref. A01209

PRIME MINISTER

Cabinet: Community Affairs

The Lord Privy Seal might be invited to report briefly on the final stages of his bilateral consultations on the follow-up to the Dublin European Council discussions on our budget problem. Since the Cabinet last met he will have been to Bonn, Dublin, Copenhagen and Paris. He will make a full report to OD on 25th January.

2. The Minister of Agriculture might be invited to report on the 21st-22nd January Agriculture Council. In the absence of any move from France to comply with the European Court ruling on sheepmeat, no progress was made towards agreement on an internal regime. Discussion of the Commission's economy package for the CAP revealed widespread opposition to the proposed super-levy on surplus milk production and is unlikely to make further headway until the Commission produce their 1980-81 price-fixing proposals.

3. OD(E) will have met immediately before Cabinet to consider how the energy, sheepmeat and fisheries issues should be handled in relation to our budget objective, and the approach we should adopt towards forthcoming discussions with the European Parliament on a new 1980 Community budget. The Foreign and Commonwealth Secretary might be invited to report to Cabinet on the latter; on the former he will report to OD on 25th January.

RWA

ROBERT ARMSTRONG

23rd January, 1980

F.A.
Rmd 25/1
(1)

10 DOWNING STREET

Prime Minister.

I have discussed this with the Cabinet Office & with the F.C.O. The consensus (with which Lord Carrington agrees) is that your views should be conveyed to Mr Jenkins but that the terms suggested by Mr Walker are excessively colourful. It was suggested that the best way to proceed would be for me to ring Mr Tickell ~~[illegible]~~ (Mr Jenkins' Chef de Cabinet) early to-morrow & to convey the substance of Mr Walker's draft to him in your name. The Commission meets on Wednesdays & a call would therefore be timely. Agree?

Rmd 22/1

GR PARIS

FLASH

RR COPENHAGEN

RR THE HAGUE

ADVANCE COPY

RR ROME

RR DUBLIN

RR BONN

GPS 800

CONFIDENTIAL

(FCO PASS ADVANCE ADRESSEES ONLY)

FM UKREP BRUSSELS 221010Z JAN 80

TO FLASH FCO

TELEGRAM NUMBER 373 OF 22 JAN

AND TO IMMEDIATE PARIS.

INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, BONN.

SHEEPMEAT.

FOLLOWING IS A MESSAGE FROM M WALKER TO THE PRIME MINISTER.

QUOTE.

I AM SHOCKED THAT IN MY DISCUSSIONS WITH THE COMMISSIONER THERE IS A POSSIBILITY THAT THE COMMISSION WILL NOT BE SEEKING ''INTERIM MEASURES'' AGAINST THE FRENCH ON SHEEPMEAT. THIS WOULD MEAN THAT WE WOULD HAVE TO WAIT UP TO A YEAR, AND PERHAPS EIGHTEEN MONTHS, FOR A FURTHER COURT DECISION DURING WHICH TIME THIS ILLEGAL ACTION WILL CONTINUE.

ON A MINOR QUESTION OF A PIGMEAT SUBSIDY SOME YEARS AGO THE COMMISSION IMMEDIATELY SOUGHT INTERIM MEASURES AGAINST US WHICH WERE SUCCESSFULLY APPLIED.

YOU WILL KNOW OF THE CORRESPONDENCE THAT HAS TAKEN PLACE BETWEEN ROY JENKINS AND THE FRENCH PRIME MINISTER ON THE QUESTION OF SHEEPMEAT. I HAVE SENT A FORMAL LETTER TO GUNDELACH DEMANDING THAT INTERIM MEASURES ARE TAKEN. I THINK IT WOULD GREATLY STRENGTHEN OUR POSITION IF YOU SENT A MESSAGE ALONG THE FOLLOWING LINES TO ROY JENKINS IMMEDIATELY. HE, I KNOW, WILL BE VERY SENSITIVE TO A DIRECT APPROACH FROM YOU, PARTICULARY IN VIEW OF HIS PUBLIC PRONOUNCEMENTS

I think it would be best if Lord C. sent a message to Jenkins. We must back up Peter Walker – but we must remember that we may be driven to later – [illegible] over the community budget.

PS

PS/MS

PS/PUS

MR FLANNAGAN

MR EDI I

AB OFFICE 3

MAFF 3

PS WOLD Duchy Office 1

PS.

ON THIS TOPIC WHEN HE SPOKE AT THE OXFORD CONFERENCE.

THE MESSAGE MUST BE SENT IMMEDIATELY BECAUSE THE COMMISSION WILL BE ABLE TO DECIDE ON THIS WITHIN THE NEXT FEW DAYS.

UNQUOTE.

FOLLOWING IS THE DRAFT TEXT SUGGESTED BY MR WALKER:

QUOTE

IN YOUR SPEECH TO THE OXFORD FARMING CONFERENCE YOU MADE IT CLEAR THAT THE COMMISSION WOULD DO WHATEVER IN ITS POWER TO SEE THAT FRANCE COMPLIED WITH BOTH THE TREATY AND THE COURT RULING ON THE QUESTION OF SHEEPMEAT.

I AM THEREFORE DEEPLY CONCERNED AT ANY SUGGESTION THAT THE COMMISSION WOULD NOT BE APPLYING FOR QUOTE INTERIM MEASURES UNQUOTE IN CONNECTION WITH THE TWO COURT CASES THEY ARE TAKING TO THE EUROPEAN COURT ON THIS QUESTION.

I AM TOLD THAT THE COMMISSION'S LAWYERS ARE AGREED WITH OURS THAT UNLESS INTERIM MEASURES WERE OBTAINED THERE WOULD BE NO NEW LEGAL PRESSURE ON FRANCE TO STOP IMPOSING ILLEGAL LEVIES AND ILLEGAL BANS ON OUR SHEEPMEAT FOR A FURTHER TWELVE MONTHS, WHICH IS THE TIME IT WOULD TAKE FOR THE COURT TO REACH ITS DECISIONS ON THESE NEW CASES.

THIS WOULD BE AN INTOLERABLE SITUATION AND TOTALLY UNACCEPTABLE, PARTICULARLY WHEN ONE CONSIDERS THAT ON A MUCH MORE MINOR QUESTION INVOLVING PIGMEAT THE COMMISSION SOUGHT AND OBTAINED INTERIM MEASURES AGAINST THE UNITED KINGDOM.

THE DAMAGE WE SUFFER FROM FRENCH DEFIANCE MOUNTS DAILY AND THERE COULD NOT BE A CLEARER CASE FOR A RESTRAINING INJUNCTION OF THE SORT THAT THE INTERIM MEASURES PROCEDURE PROVIDES.

CONSIDERATIONS OF LAW AND EQUITY AND THE WHOLE STANDING OF THE COMMUNITY WOULD MAKE IT INTOLERABLE FOR THE UNITED KINGDOM GOVERNMENT, AND I WOULD PRESUME FOR THE COMMISSION, TO CONTEMPLATE A FURTHER YEAR OF INACTION.

I DO THEREFORE LOOK TO THE COMMISSION TO SEE THAT INTERIM MEASURES ARE SOUGHT AT THE EARLIEST OPPORTUNITY.

UNQUOTE

ENDS

FCO ADVANCE TO ACTION COPY ADDRESSEES ONLY:

FCO - PS/LPS PS/PUS HANNAY POSTON
CAB - PS/CAB SEC FRANKLIN WALSH
MAFF - SIR B HAYES J READE G WILSON
NOTP - PS/PM ALEXANDER

BUTLER

[ADVANCED AS REQUESTED]

FLASH

NNNN

PART 4 ends:-

OD(E)(80)3 21.1.80

PART begins:-

OD(80)5 22.1.80