PREM 19/226

PART 8.

Confidential Filing

The Community Budget.

EUROPEAN POLICY

Part 1 May 79
Part 8 APRIL 80.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~2.5.80~~							
~~13.5.80~~							
~~21.5.80~~							
~~28.5.80~~							
~~3.6.80~~							
3.6.80							
ENDS.							

PREM 19/226

PART 8 ends:-

MODBA to Tsy 3.6.80

PART 9 begins:-

Tsy to PMG's Sft 4.6.80.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(80) 18th Conclusions, Item 3	01/05/80
CC(80) 19th Conclusions, Item 3	15/05/80
CC(80) 20th Conclusions, Item 3	22/05/80
C(80) 29	31/05/80
CC(80) 21st Conclusions	02/06/80

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 31 March 2010

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Lords Hansard 29/04/80
Columns 1149-1161 EEC: Luxembourg Council Meeting

House of Commons Hansard 02/06/80
Columns 1043-1060 European Community (Foreign Affairs Council Meeting)

Signed C Wayland Date 31 March 2010

PREM Records Team

FCO
HMT
MOD
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MAFF
TRADE
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CO

3 June 1980

EUROPEAN COMMUNITY BUDGET:
ADDITIONAL TWELFTHS FOR FEOGA

The Prime Minister has seen the Financial Secretary's letter of 2 June to the Foreign and Commonwealth Secretary on this subject. She is content with the course of action proposed by Mr. Lawson.

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

S.A.J. Locke, Esq.,
H.M. Treasury.

FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

2 June 1980

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

(1)

Prime Minister

i.e. they want to go beyond the three twelfths but not, of course, beyond 'twelve twelfths'. No transfers between different sections of the budget. Agree A?

Yes pse

EUROPEAN COMMUNITY BUDGET: ADDITIONAL TWELFTHS FOR FEOGA

I wrote to you on 14 May about the position we should adopt on a request from the Commission for additional provision to meet FEOGA expenditure.

This proposal was discussed in the Council's Budget Committee on 28 May. Contrary to our expectations, all other member States agreed to the full amount requested by the Commission rather than the more restricted amount which we considered should be granted. All the member States did, however, oppose the transfers requested by the Commission.

The subject is to be considered by COREPER this week. As on other budgetary matters, the Council will decide on the request by qualified majority and it has been agreed that we should not seek to block this. Since all other member States have already indicated their readiness to accept the full Commission request the position we adopt will not affect the outcome.

I do not think that seeking to reopen discussion of the substance of the proposal would serve any purpose. However, the position we have taken is in line with the policy so far followed by the Council on requests for additional twelfths. I therefore consider that we should maintain our position and allow ourselves to be outvoted. We need to send instructions to our representatives in Brussels in time for discussion on Wednesday. Unless you, or other colleagues, object, I propose that they be instructed to act accordingly.

A

I am sending copies of this letter to the Prime Minister, other Members of OD(E) and the Secretary to the Cabinet.

NIGEL LAWSON

COMMUNITY BUDGET AND RELATED ISSUES

WITH PERMISSION, I WILL MAKE A STATEMENT ON THE MEETING OF THE FOREIGN AFFAIRS COUNCIL MY NOBLE FRIEND THE FOREIGN AND COMMONWEALTH SECRETARY AND I ATTENDED IN BRUSSELS ON 29 AND 30 MAY. MY RT HON FRIEND THE MINISTER FOR AGRICULTURE WILL MAKE A STATEMENT ON THE AGRICULTURAL COUNCIL WHICH TOOK PLACE AT THE SAME TIME. BOTH COUNCILS WERE THE CULMINATION OF A LONG AND COMPLEX NEGOTIATION WHICH THE GOVERNMENT BEGAN SHORTLY AFTER TAKING OFFICE LAST YEAR ON THE SIZE OF THE UNITED KINGDOM CONTRIBUTION TO THE EC BUDGET.

THE FOREIGN AFFAIRS COUNCIL, IN WHICH WORK CONTINUED THROUGHOUT THE NIGHT OF 29/30 MAY, REACHED PROVISIONAL AGREEMENT ON A NUMBER OF ISSUES AS DID THE AGRICULTURAL COUNCIL WHICH WAS MEETING IN PARALLEL. AFTER A MEETING OF CABINET TODAY, THE GOVERNMENT HAS INFORMED THE ITALIAN PRESIDENCY THAT WE ACCEPT THE PROPOSALS THAT EMERGED FROM BOTH COUNCILS.

/I SHOULD LIKE

I SHOULD LIKE AT THE OUTSET TO OFFER UNSTINTED PRAISE TO SIGNOR COLOMBO, THE ITALIAN PRESIDENT OF THE COUNCIL, FOR HIS OUTSTANDING CHAIRMANSHIP. HIS SKILL PLAYED A VITAL PART IN THE WORK THAT WAS DONE.

UK BUDGET CONTRIBUTION

AT THE FOREIGN AFFAIRS COUNCIL ON 29 MAY, THE FOLLOWING ARRANGEMENTS WERE PROPOSED TO ALLEVIATE THE UNITED KINGDOM'S BUDGET PROBLEM. THE FIRST ELEMENT IN THE SOLUTION IS THE FOLLOWING FORMULA : PROVIDED OUR NET CONTRIBUTIONS FOR 1980 AND 1981, BEFORE THE FORMULA IS APPLIED, DO NOT EXCEED 1080 MILLION POUNDS AND 1300 MILLION POUNDS RESPECTIVELY, THERE WILL BE CEILINGS ON OUR NET CONTRIBUTIONS IN THESE YEARS AFTER ADJUSTMENT OF 370 MILLION POUNDS AND 440 MILLION POUNDS RESPECTIVELY. ALL THESE STERLING FIGURES ARE CONVERTED AT A RATE OF 1.65 UA TO THE POUND.

/THIS WOULD RESULT

THIS WOULD RESULT IN A TOTAL REBATE TO BRITAIN OVER THE TWO-YEAR PERIOD OF 1570 MILLION POUNDS. THE REBATE IN 1981 WILL BE MORE THAN ANYTHING OFFERED AT LUXEMBOURG. A FURTHER ELEMENT OF THE SOLUTION IS A RISK-SHARING FORMULA. SHOULD THE AMOUNTS OF THE UNITED KINGDOM'S UNCORRECTED NET CONTRIBUTIONS IN 1980 AND 1981, AS ESTIMATED BY THE COMMISSION IN FACT BE EXCEEDED, THE ARRANGEMENT IS THAT IN 1980 WE WILL BEAR ONLY ONE-QUARTER OF THE COST OF THIS EXCESS. FOR 1981 A MORE COMPLEX FORMULA EXISTS UNDER WHICH WE WOULD MEET THE FIRST 12 MILLION POUNDS OF ANY EXCESS, THE NEXT 60 MILLION POUNDS WOULD BE SHARED BETWEEN US AND OUR PARTNERS EQUALLY AND THEREAFTER WE WOULD MEET ONLY A QUARTER OF THE EXCESS COST, AS IN 1980.

FOR 1982, IT WAS ENVISAGED THAT BY THIS TIME THE COUNCIL WOULD HAVE COMPLETED A RADICAL REVIEW OF THE PATTERNS OF COMMUNITY EXPENDITURE AND THE OPERATION OF THE BUDGET. HOWEVER, IF THAT HAD NOT BY 1982 PRODUCED ARRANGEMENTS WHICH WOULD PREVENT ANY FURTHER RECURRENCE OF THE UNITED KINGDOM'S BUDGET PROBLEM, THE COMMISSION WOULD PUT FORWARD PROPOSALS ALONG THE LINES OF THE 1980 AND 1981 SOLUTIONS AND THE COUNCIL WOULD ACT ACCORDINGLY. WE CAN THEREFORE BE SURE THAT FOR 1982 AS WELL THERE WILL BE SIMILAR RESTRICTIONS ON THE LEVEL OF THE UNITED KINGDOM'S NET CONTRIBUTION.

THE PAYMENT OF THESE AMOUNTS TO BRITAIN WILL BE BROUGHT ABOUT BY IMPROVEMENTS IN THE OPERATION OF THE 1975 FINANCIAL MECHANISM, BRINGING OUR GROSS CONTRIBUTION MORE OR LESS INTO LINE WITH OUR SHARE OF COMMUNITY GNP, AND FOR THE REST THROUGH SUPPLEMENTARY COMMUNITY EXPENDITURE IN THE UK. THERE WILL BE A NEW REGULATION UNDER ARTICLE 235 OF THE EEC TREATY TO PROVIDE FOR THIS EXPENDITURE.

FOLLOWING THE PRECEDENT OF THE FINANCIAL MECHANISM, THE CREDITS UNDER THE NEW REGULATION WILL BE INSCRIBED IN THE COMMUNITY BUDGET FOR THE FOLLOWING YEAR, BUT WITH THE POSSIBILITY OF ADVANCE PAYMENTS IN THE CURRENT YEAR. FOR 1980, WE WOULD EXPECT TO BE PAID BEFORE THE END OF OUR FINANCIAL YEAR 1980-81.

IN THE LONG-TERM THE MOST IMPORTANT PART OF THE PACKAGE IS THE COMMITMENT OF THE COUNCIL TO REVIEW THE DEVELOPMENT OF COMMUNITY POLICIES AND THE OPERATION OF THE BUDGET. THIS TOGETHER WITH THE RESTRAINTS IMPOSED BY THE 1% CEILING WILL ENABLE US TO PRESS FOR LASTING REFORMS WHICH WILL AMONG OTHER THINGS PREVENT ANY RECURRENCE OF THE BRITISH BUDGETARY PROBLEM. THIS REVIEW OFFERS AN OPPORTUNITY WHICH HAS NEVER BEEN AVAILABLE FORE, SINCE WE JOINED THE COMMUNITY, TO WORK TOGETHER WITH OUR PARTNERS FOR FINANCIAL ARRANGEMENTS, AND COMMUNITY POLICIES WHICH ARE TO THE

/ADVANTAGE

ADVANTAGE AND INTEREST OF ALL THE MEMBER STATES, AS BEFITS A COMMUNITY OF EQUALS. THE COUNCIL ALSO REAFFIRMED THE CONCLUSIONS OF THE 11 FEBRUARY FINANCE COUNCIL WHICH STRESSED THE NEED FOR A PRUDENT AGRICULTURAL PRICING POLICY AND A STRICTER CONTROL OF AGRICULTURAL SPENDING.

FISHERIES

WE AGREED TO A STATEMENT OF GENERAL PRINCIPLES ON FISHERIES, WHICH LEAVES THE SUBSTANTIVE ISSUES OPEN FOR CONSIDERATION ON THEIR MERITS IN THE FISHERIES COUNCIL, WHICH WILL NEXT MEET ON 16 JUNE. A DEADLINE OF 31 DECEMBER 1980 HAS BEEN FIXED FOR AGREEMENT ON A REVISED CFP. THIS IS IN THE UK INTEREST: HMG HAVE REPEATEDLY URGED RAPID PROGRESS TOWARDS A SATISFACTORY CFP SETTLEMENT. I WELCOME THE FACT THAT THE FISHERIES TEXT RECOGNISES THE NEED FOR THIS, AND FOR A SETTLEMENT OF ALL THE OUTSTANDING ELEMENTS OF THE CFP TOGETHER. IT IN NO WAY PREJUDICES THE VITAL INTERESTS OF OUR FISHERMEN WHICH WE ARE DETERMINED TO SAFEGUARD.

/WHEN

WHEN MY RT HON FRIEND THE PRIME MINISTER REFUSED THE OFFER OUR PARTNERS MADE AT LUXEMBOURG, SHE MADE CLEAR THAT THIS WAS BECAUSE THE COMBINATION OF AMOUNT AND DURATION WAS NOT RIGHT. WE HAVE NOW NEGOTIATED BETTER ARRANGEMENTS FOR THE TWO YEARS 1980 AND 1981 TAKEN TOGETHER THAN WERE ON OFFER THEN; AND WE HAVE ALSO SECURED AN ARRANGEMENT FOR ITS THIRD YEAR, 1982, WHICH WAS REFUSED TO US THEN. FURTHERMORE, THE COMMUNITY HAS RECOGNISED THAT THERE WILL HAVE TO BE A MAJOR REVIEW OF THE OPERATION OF THE BUDGET AND THE BALANCE OF COMMUNITY EXPENDITURE AND THAT THE UK BUDGET PROBLEM MUST NOT BE ALLOWED TO RECUR.

AS MY RT HON FRIEND THE PRIME MINISTER MADE CLEAR AFTER LUXEMBOURG WE ALSO REFUSED WHAT WAS ON OFFER THEN BECAUSE WE WERE BEING ASKED TO ACCEPT AGREEMENTS OUTSIDE THE FIELD OF THE BUDGET WHICH WERE DAMAGING TO US. SINCE THEN, AS MY RT HON FRIEND THE MINISTER OF AGRKCULTURE, FISHERIES AND FOOD WILL MAKE CLEAR IN HIS REPORT ON SHEEPMEAT AND CAP PRICES AND RELATED MEASURES, WE HAVE SECURED CHANGES IN WHAT WAS BEING SUGGESTED WHICH GIVE US SUBSTANTIAL ADVANTAGES. TAKING THE BALANCE OF THESE PROPOSALS TOGETHER, THE GOVERNMENT BELIEVES THEY ADD UP TO A FAIR AND ADVANTAGEOUS OUTCOME.

IN A NEGOTIATION AS COMPLEX AS THIS, NO ONE PARTY CAN EXPECT TO GET EVERYTHING HE WANTS AND TO CONCEDE NOTHING. THERE SHOULD BE NO BELITTLING OF THE CONCESSIONS OUR PARTNERS ARE MAKING AT A TIME WHEN, WHETHER THE IMPACT ON THEM OF THE COMMUNITY BUDGET, THE GENERAL ECONOMIC BACKGROUND IS UNFAVOURABLE. THE REALLY IMPORTANT ACHIEVEMENT IS THE RESOLUTION OF A PROBLEM WHICH HAS BEDEVILLED THE COMMUNITY FOR A YEAR OR MORE AND WHICH HAS RESULTED IN A RISING TIDE OF ACRIMONY ILL-SUITED TO THE NEED FOR UNITY AND COHESION IN EUROPE IN THE FACE OF AN INCREASINGLY TURBULENT WORLD. WITH THIS ARRANGEMENT BRITAIN CAN PLAY HER PART IN DEVELOPING FURTHER THE INTERNAL AND EXTERNAL POLICIES OF THE COMMUNITY WITHOUT THE SENSE OF FESTERING GRIEVANCE WHICH HER EXCESSIVE CONTRIBUTION TO THE COMMUNITY BUDGET ENGENDERED. THE NEGOTIATION HAS MOREOVER FOCUSSED THE MINDS OF ALL MEMBER STATES ON THE UNSATISFACTORY WAY IN WHICH THE COMMUNITY BUDGET OPERATES AND, MORE CLEARLY THAN EVER, ON THE UNDESIRABLE IMBALANCE IN THE PATTERN OF COMMUNITY EXPENDITURE. WITH THE REVIEW COMMISSIONED FOR 1981 AND THE PROXIMITY OF THE 1% VAT CEILING, WE HAVE AN UNRIVALLED OPPORTUNITY TO BRING ABOUT SENSIBLE ADJUSTMENTS TO THE OPERATION OF THE CAP AND TO PUT THE COMMUNITY'S FINANCES ON A SOUNDER BASIS THAN EVER BEFORE.

/THIS GOVERNMENT

THIS GOVERNMENT CAME TO OFFICE DETERMINED TO MAKE A SUCCESS OF OUR MEMBERSHIP OF THE COMMUNITY. THE FIRST TASK WAS TO DEAL WITH THE INEQUITABLE BUDGET CONTRIBUTION. THAT WE HAVE NOW DONE. BUT EUROPE IS ABOUT MORE THAN THAT. THE CHALLENGES THAT FACE THE COMMUNITY BOTH INTERNALLY AND EXTERNALLY ARE AS DAUNTING AS ANY IN ITS RELATIVELY BRIEF HISTORY. NONE OF US CAN FIND ADEQUATE SOLUTIONS TO THEM ON OUR OWN. THIS AGREEMENT GIVES US THE CHANCE TO SOLVE THEM TOGETHER.

Minuted to Chancellor 31.5.80.

CONFIDENTIAL

PRIME MINISTER

Cabinet, 2 June: United Kingdom Community Budget Contribution and Related Questions

Background

The Foreign and Commonwealth Secretary's paper comes at the end of a long process of negotiation to improve the UK's net budgetary position within the Community: commitment in principle at Strasbourg; too little movement at Dublin; considerable progress at the European Council in Luxembourg on 27 April but the figures offered for 1981 were inadequate and there was no commitment to a third year.

The proposals in the paper which emerged from a nineteen hour negotiating session in Brussels on 29/30 May were accepted by some Foreign Ministers there and then but Lord Carrington reserved the Government's position. It is likely that all other Governments will agree if we do; and the new agricultural prices will then come into effect from 1 June.

Handling

You will want to invite the Foreign and Commonwealth Secretary to introduce his paper (the factual annex to which was agreed with Treasury and MAFF). He will probably stress that, while not ideal, the proposals represent as much as can be extracted by negotiation; and he will no doubt recommend their acceptance. The Lord Privy Seal also attended the Foreign Affairs Council.

You might then suggest that the Cabinet should look at the individual elements in the package before taking a final view.

Budget

You will want to have the Chancellor of the Exchequer's assessment as to whether the relief offered is acceptable given public expenditure commitments. There are really two questions:-

- are the (slightly complicated) proposals a significant improvement on what was on offer in Luxembourg?

- do they bring us back to a tolerable financial position within the Community?

/Positive factors

Positive factors -

- three year arrangement although third year not quantified.
- better figures for 1981 and overall relief for 1980 and 1981 higher than on offer at Luxembourg.
- mandate for restructuring the Budget within the one per cent ceiling.

Negative -

- a higher level of net contribution for 1980, could be as much as 713 mua compared with 538 offered in Luxembourg.
- not a fixed ceiling but a risk sharing arrangement restricting the rise in our net contribution.

CAP Prices

The Minister of Agriculture will no doubt say that the linkage with the Budget issue (not of our making) has paid off and refered to the relatively modest effect on food prices. The Secretary of State for Trade may have the view that we would have been better off continuing to block price increases. We should probably have had to accept some price increases this year even without the linkage with the Budget. It is possible that the Chief Secretary will argue that we could offset the domestic effects by revaluing the Green Pound. This will be resisted by Mr. Walker and, if raised, should be referred to OD(E).

Sheepmeat

The Minister of Agriculture will argue that the outcome is in line with his negotiating mandate approved by OD(E). You will be able to report on the New Zealand reaction from your talks with Mr. Muldoon. The inclusion of export refunds is unsatisfactory but the quantity of sheepmeat going intervention is likely to be relatively small.

CONFIDENTIAL

/Fisheries

Fisheries

The Minister of Agriculture and the Secretary of State for Scotland should be invited to report on reactions of the fishing industry. The text (annexed to the memorandum) avoids any specific reference to "equal conditions of access" and includes acceptable guidelines but the fishing industry, already in economic difficulty, will be suspicious of a sell out.

Energy

During the latter stages of the negotiations, energy questions dropped out of the package and we have not been pressed to accept commitments over North Sea oil.

On the general assessment of the outcome the Cabinet will want to review the alternatives. Could we continue to block CAP prices and reopen the negotiations at the European Council in Naples? Or would this result in a general Community crisis? What would be the consequences for us, and the Community? The Lord President and others will have views.

If the general view is that the Government should accept the proposals, presentation will be important, beginning with the Statement in the House. It should be presented as a solid achievement bringing substantial financial relief, but the prospect of a major review of the Community's policies should also be stressed. The settlement is not the end of the story: we shall have to exploit the review in order to bring about lasting improvements in the Common Agricultural Policy so that the Community can develop other more productive policies without raising the limit on its financial resources. It might be helpful if the Cabinet endorses the need for preparations for us to take a constructive role in the review (a remit to OD(E)?).

/Conclusion

Conclusion

If the Cabinet decides to endorse the outcome of the negotiations, the Italian Presidency (whose helpful role could be acknowledged) should be notified immediately i.e. before the Statement in the House.

31 May 1980

FOR MR. FRANKLIN FROM NEVILLE GAFFIN, NO. 10.

30.5.1980.

EEC BUDGET

I propose to take the following unattributable line at the 4 p.m. Lobby. Comments by 3.50 would be greatly appreciated.

Lord Carrington, accom panied by the Lord Privy Seal, reported on the outcome of the Foreign Ministers Council in Brussels immediately before and during lunch at Chequers today.

The outcome of the negotiations will be considered by Cabinet early next week (probably Monday).

Meanwhile, Ministers will spend the weekend considering the proposals for a settlement of our Budget question ~~and of those other matters which our partners have linked with it.~~ ? Is fish linked.

It is important to stress that the Foreign Secretary reached no agreement in Brussels. He has returned to consult the Prime Minister and her colleagues. There are UK reserves on all issues subject to a satisfactory Budget settlement.

~~None the less good progress seems to have been made. Whether sufficient progress in all its aspects has been made to satisfy the Cabinet remains to be seen.~~

On the details of the various issues I would propose to say the following:

BUDGET

A firm three-year ~~agreement~~ proposal which gives us very substantial quantifiable returns for the first two years and a formula for ensuring similar treatment in the third year if financial reforms have not taken effect.

/SHEEPMEAT

SHEEPMEAT

Here the major elements are that the proposed settlement protects our producers and consumers - our producers because they will gain access to the French market and be given a high level of guaranteed price financed by the Community and to the consumer because she will ~~be protected from price increases by~~ benefit from an EEC financed deficiency payments system.

NEW ZEALAND POSITION is protected because it has still to negotiate with the Community its own access arrangements and until those negotiations are complete the sheepmeat regulation will not come into effect - in other words, the UK has put New Zealand into a strong negotiating position.

The Prime Minister is seeing Mr. Muldoon, the New Zealand Prime Minister, at Chequers tomorrow to set out the facts.

FISH

The proposals on this issue have been presented so far very negatively. In fact, however, the Foreign Ministers Council has merely paved the way for a negotiation over the rest of this year to secure a common fisheries policy which the UK wants. The content of that policy has still to be negotiated by the Fisheries Council and the guidelines laid out by Foreign Ministers are acceptable to the UK as sensible and reasonable. They include a clear understanding that there will be preferential access for UK fishermen, the details of which will be negotiated.

Thus, what Foreign Ministers have done is to agree to the negotiation of a common fisheries policy on the understanding that the UK does not agree to equal access for all EEC states.

/CAP

CAP

It is clearly understood that if there is a Budget settlement satisfactory to the UK, then the Commission's CAP proposals, involving an average 5 per cent increase, will go ahead. Additional points to be made are:

The envisaged increase in prices is, of course, much below the UK level of inflation.

There are a number of helpful features, quite apart from the sheepmeat proposals, including valuable export refunds on whisky.

The overall financial effect on the UK will be limited and the addition to the Index of Retail Prices will be in the order of 0.25 per cent over 80/81.

Mr Faxed to Chequers 30/5

UK NET CONTRIBUTION TO EC BUDGET

		1980	1981	1982
PESC £m at survey prices		1057	1150	1300
PESC figures adjusted to Commission basis meua at current prices		1856	1987	2409
Latest Commission estimates of unadjusted contribution		1784	2140	n.a.
New offer.	Meua	609	730	n.a.
	£* M.	366	438	
Memo				
Total net contribution (including contribution to unallocated Budget)	meua	766	930	n.a.
	£m	460	560	n.a.

The UK's Unadjusted Contribution

Commission forecasts for the UK's net contibution differ from those shown in the Public Expenditure White Paper for two reasons:

1. they are not comparable in terms of definitions
2. the underlying economic and budgetary assumptions are not identical.

PESC figures (from table 2.2.0) are in sterling at constant prices, and include our contribution the unallocated Budget (chiefly overseas aid) which in PESC appears as part of the aid programme). The above table expresses the figures in table 2.2.1 in current price meua; the UK's contribution to the unallocated Budget has been deducted to make it comparable with Commission figures (157 meua in 1980, and 200 meua in 1981).

The figures for our corrected contribution as shown including and excluding our contribution to the unallocated Budget.

*At current meua exchange rate £1 = 1.64 meua

30.5.80.

THE NEW PROPOSAL

1980 The net UK unadjusted contribution for 1980 will be calculated on the present Commission estimate of 1784 meua. A figure of 1175 meua will be deducted from this leaving a UK net contribution of 609 meua. If the UK actual net adjusted UK contribution for 1980 exceeds 1784 meua the difference will be split with the UK bearing 25% of the extra and the other member states 75%.*

1981 For 1981 the UK net unadjusted contribution is estimated to be 2140 meua. [This is the earlier Commission estimate of 2240meua, which assumed a 12% growth in agricultural expenditure, adjusted downwards by 100 meua because of UK receipts from sheepmeat and whisky]. The growth in the UK unadjusted net contribution between 1980 and 1981 of 19.9% is applied to the 1980 proposed UK net contribution. This gives a figure of 730 (609 + 121). If the UK unadjusted net contribution for 1981 actually exceeds 2140 meua the UK will bear fully the first 20 meua. The next 100 meua of excess will be shared 50:50 between the UK and the other member states. Anything above this will be borne 25% by the UK and 75% by the rest.

1982 For 1982 the Community pledges structural changes and mandates the Commission to examine this. But if this is not achieved, the Commission will make proposals, "along the lines of the 1980 and 1981 solution and the Council will act accordingly.

* For eg if our net contribution turned out to be 1900 meua our corrected contribution would be 638 meua. (£351m).

GRS 140
[FRAME GENERAL]
UNCLASSIFIED
FM F C O 301505Z MAY 80
TO FLASH UKREP BRUSSELS
TELEGRAM NUMBER 603 OF 30 MAY
AND TO FLASH ALL OTHER EC POSTS.

GUIDANCE TO EC POSTS.

EC BUDGET.

1. YOU SHOULD NOT REPEAT NOT COMMENT ON THE OUTCOME OF THE FOREIGN AFFAIRS COUNCIL. NOR SHOULD YOU SPECULATE ON THE GOVERNMENT'S DECISION ABOUT THE PACKAGE. THIS IS UNDER CONSIDERATION.

2. NEWS DEPARTMENT AT THEIR PRESS CONFERENCE TODAY SAID:-
(A) LORD CARRINGTON HAS SAID THAT HE WILL DISCUSS THE OUTCOME OF THE FOREIGN AFFAIRS MEETING WITH THE PRIME MINISTER:
(B) SUBSTANTIAL PROGRESS WAS ACHIEVED ON THE MAIN PROBLEMS. NEGOTIATIONS WERE DETAILED AND SERIOUS:
(C) THERE WAS PROGRESS ON THE BUDGET PROBLEM. IT WAS IMPORTANT FOR THE UK THAT A THREE YEAR PROPOSAL WAS MADE.

3. YOU SHOULD NOT VOLUNTEER OR ENLARGE ON THIS, THOUGH, IF ASKED, YOU MAY CONFIRM THAT THIS WAS THE LINE TAKEN.

CARRINGTON
FRAME GENERAL
ECD

B.R.

Not Minuted

RECORD OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND THE FOREIGN AND COMMONWEALTH SECRETARY AT 1015 AM ON FRIDAY 30 MAY 1980

PM: Peter, at last, how are you?

LC: Sorry, I'm in Brussels and the telephone system doesn't work. We just finished about half an hour ago and I will get into an aeroplane as quick as I possibly can and come to you at Chequers.

PM: Yes.

LR: I think on the whole it's all right.

PM: All right Peter, you must be exhausted.

LC: But I think what we've got broadly speaking is a guarantee for the third year. This is the net contribution of 730 for '81.

PM: 730?

LC: Which is the column 4 figure and the first year about 600. There are certain other things which are quite good.

PM: 600 the first year?

LC: Yes.

PM: 730 the second, and the third?

LC: And the third, a guarantee that if the radical revision of the Community's finances has not taken place they will act as they did in the first two years.

PM: At Luxembourg we had 538.

LC: Yes, but if you add it all up, we've got more. We've got a total in the two years of just under, a return of just under 2600 plus a formula in case our contribution gets over the odds.

/ PM:

PM: Yes, what I think I'll do Peter is get onto the Treasury because you see what matters to us is the figures that were in the five years ahead, which was expenditure of about £1100 in this year and what we want to know is how much now that's going to come down because that's how it will be done.

LC: Our contribution this year will be on the basis of the 1800 figure, will be roughly 600, but it will be more if it goes above this.

PM: Yes. The question is, that's on the importer benefits basis isn't it? Our Treasury operate on the exporter benefits basis.

LC: That I think is no MCAs isn't it?

PM: Yes, which is the one in the Public Spending White Paper. Anyway, Peter you must be exhausted. Do you want us to do anything at this end?

LC: I sent a flash telegram with the details rather more than I've given you on the telephone.

PM: Yes, I will have that. I've got the sheepmeat details but not the Budget details.

LC: Well we only sent it half an hour ago.

PM: All right Peter.

LC: It ought to be there and I ought to be with you in about an hour and a half.

PM: All right. Have you had any sleep?

LC: No we haven't. We've been through all night.

PM: I'm sorry.

LC: Well, it doesn't matter if it works.

PM: All right Peter. We'll look forward to seeing you. Goodbye.

ADVANCE FLASH FRAME AGRICULTURE 38. XEROX COPIES

FCO
PS
PS/LORD PRIVY SEAL
MR BULLARD
MR HANNAY
LORD BRIDGES

~~RESIDENT CLERK~~
HD/ECD(1) (4)
HD/NEWS
~~HD/ECD~~
~~HD/....~~
~~HD/....~~
~~HD/....~~
HD/SP

FLASH

PLUS FCO
Mr FAULKNER, ECD(1)
Mr BUDD, ECD(E)

CABINET OFFICE
SIR R ARMSTRONG
MR M D M FRANKLIN
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Mr RICHARD (Aberystwyth) } WOAD
Mr ALEXANDER, No.10

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Mr HADLEY

CONFIDENTIAL
FRAME AGRICULTURE
FM UKREP BRUSSELS 301022Z MAY 80
TO F L A S H FCO
TELEGRAM NUMBER 2655 OF 30 MAY
INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG AND WELLINGTON

AGRICULTURE COUNCIL 26/29/30 MAY

CONCLUSION

1. THE COUNCIL MET FOR TEN MINUTES THIS MORNING (30TH) FOLLOWING THE CONCLUSION OF THE FOREIGN AFFAIRS COUNCIL. IT DECIDED TO PUT IN HAND WORK ON THE IMPLEMENTING REGULATIONS AND LEGALITIES OF THE PACKAGE OF AGRICULTURAL PRICES AND SHEEPMEAT, AGAINST THE CONTINGENCY THAT THE UK BUDGET PROBLEM WOULD BE RESOLVED OVER THE WEEKEND, FOLLOWING DISUCSSIONS IN CAPITALS.

2. THE COMMISSION WILL THEREFORE CONVENE MANAGEMENT COMMITTEES THIS AFTERNOON FOR BEEF AND MILK, AND HAVE ALREADY CALLED ONE ON AGRI-MONETARY REGULATIONS , TO AGREE THE NECESSARY REGULATIONS TO BRING INTO FORCE THE NEW MARKETING YEAR ON THE 1ST OF JUNE. IF AGREEMENT TO THE PACKAGE IS CONFIRMED BEFORE MONDAY THE REGULATIONS WILL BE PROMULGATED IN THE OFFICIAL JOURNAL. THE COUNCIL DID NOT DISCUSS WHAT MEASURES TO TAKE IF AGREEMENT WAS NOT REACHED.

3. MARCORA INITIALLY PRESENTED THE PROCESS AS THE UNRAVELLING OF A SUCCESSION OF RESERVES AD REFERENDUM - ON THE BUDGET FIRST THEN THE PRICES PACKAGE, THEN SHEEPMEAT. HOWEVER MR WALKER MADE CLEAR THAT ALL THREE ELEMENTS IN THE PACKAGE HAD TO BE CONSIDERED BY THE UK GOVERNMENT SIMULTANEOUSLY AND HOPED THAT A DECISION COULD BE TAKEN QUICKLY.

4. THE COUNCIL CONCLUDED WITH MUTUAL CONGRATULATIONS, AND A ROUND OF APPLAUSE FOR MARCORA WHO WAS DESCRIBED BY GUNDELACH AS A BRILLIANT CHAIRMAN WHO HAD MADE IT ALL POSSIBLE.

FCO ADVANCE TO :
FCO - PS/SOFS PS/LPS PS/PUS HANNAY FITZHERBERT SPRECKLY FAULKNER BUDD
CAB - PS/SEC TO CABINET FRANKLIN WALSH
DOT - VINALL
MAFF- PS/MIN PS/PS DAVIES ANDREWS MRS PICKERING G WILSON MRS ARCHER
J DIXON MISS S BROWN HADLEY
TSY - ROBERTS
DAFS - CRAMOND
DAHI - JACK
WOAD (CARDIFF) - J I DAVIES
WOAD (ABERYSTWYTH) - RICHARDS
NO 10 - ALEXANDER

BUTLER

NNNN

CO BRUSSELS

ANNEX III

GPS 600
CONFIDENTIAL
FRAME GENERAL
FM UKREP BRUSSELS 300958Z MAY 80
TO FLASH FCO
TELEGRAM NUMBER 2654 OF 30 MAY
INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG.

MODBA

FOREIGN AFFAIRS COUNCIL, 29-30 MAY.

CONVERGENCE/BUDGETARY QUESTIONS.

MIPT: FOLLOWING IS TEXT OF CONCLUSIONS.

1. THE NET UNITED KINGDOM CONTRIBUTION FOR 1980 WILL BE CALCULATED ON THE BASIS OF THE PRESENT COMMISSION ESTIMATE (1,784 MEUA). 1,175 MEUA WILL BE DEDUCTED FROM THIS FIGURE. THIS LEAVES A UNITED KINGDOM CONTRIBUTION OF 609 MEUA FOR 1980.

2. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 WILL BE CALCULATED ON THE BASIS OF THE COMMISSION ESTIMATE OF 2,140 MEUA. THE UNITED KINGDOM'S 1980 NET CONTRIBUTION WILL BE INCREASED BY A PERCENTAGE EQUAL TO THE DIFFERENCE BETWEEN 1,784 AND 2,140 MEUA, NAMELY 19.9 PER CENT OR 121 MEUA. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 THEREFORE BECOMES 730 MEUA.

3. THE UNITED KINGDOM CONTRIBUTION, BASED ON THE ABOVE CALCULATIONS, IS REDUCED FOR 1980 AND 1981 BY 2,585 MEUA (1,175 PLUS 1,410).

4. IF THE UNITED KINGDOM'S ACTUAL CONTRIBUTIONS FOR 1980 AND 1981 ARE HIGHER THAN 1,784 AND 2,140 MEUA RESPECTIVELY THE DIFFERENCE WILL BE SPLIT - FOR THE FIRST YEAR 25 PER CENT WILL BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHER 8 MEMBER STATES. FOR THE SECOND YEAR - INCREASE FROM 730 TO 750 TO BE BORNE IN FULL BY THE UNITED KINGDOM: FROM 750 TO 850, 50 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 50 PER CENT BY THE OTHER 8 MEMBER STATES: ABOVE 850, 25 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHERS.

5. PAYMENTS OVER THE PERIOD 1980-82 SHOULD BE MADE BY MEANS OF THE ADAPTED FINANCIAL MECHANISM AND THE SUPPLEMENTARY MEASURES PROPOSED BY THE COMMISSION. THE FINANCIAL MECHANISM WILL CONTINUE TO FUNCTION AUTOMATICALLY UNTIL THE END OF 1982.

6. THE CREDITS ARE INSCRIBED IN THE BUDGET OF THE FOLLOWING YEAR, FOLLOWING THE PRECEDENT OF THE FINANCIAL MECHANISM. AT THE REQUEST OF THE UNITED KINGDOM THE COUNCIL CAN DECIDE EACH YEAR ON A PROPOSAL BY THE COMMISSION TO MAKE ADVANCES TO PERMIT THE ACCELERATED IMPLEMENTATION OF THE SUMMPLEMENTARY MEASURES.

/7. FOR

7. FOR 1982, THE COMMUNITY IS PLEDGED TO RESOLVE THE PROBLEM BY MEANS OF STRUCTURAL CHANGES (COMMISSION MANDATE TO BE FULFILLED BY THE END OF JUNE 1981. THE EXAMINATION SHOULD CONCERN THE DEVELOPMENT OF COMMUNITY POLICIES, WITHOUT CALLING INTO QUESTION THE COMMON FINANCIAL RESPONSIBILITY FOR THESE POLICIES, WHICH ARE FINANCED FROM THE COMMUNITY'S OWN RESOURCES, NOR THE BASIC PRINCIPLES OF THE COMMON AGRICULTURAL POLICY. TAKING ACCOUNT OF THE SITUATIONS AND INTERESTS OF ALL MEMBER STATES, THIS EXAMINATION WILL AIM TO PREVENT THE RECURRENCE OF UNACCEPTABLE SITUATIONS FOR ANY OF THEM). IF THIS IS NOT ACHIEVED, THE COMMISSION WILL MAKE PROPOSALS ALONG THE LINES OF THE 1980-81 SOLUTION AND THE COUNCIL WILL ACT ACCORDINGLY.

8. THE COUNCIL REAFFIRMS THE CONCLUSIONS ADOPTED BY IT (IN ITS COMPOSITION OF MINISTERS OF ECONOMIC AFFAIRS AND FINANCE) ON 11 FEBRUARY 1980 ((CF ANNEX TO DOC. 5081/80 PV/CONS 5 ECO/FIN 9)), WHICH INCLUDED REFERENCE TO THE 1 PER CENT VAT OWN RESOURCES CEILING.

9. IT IS IMPORTANT FOR THE FUTURE WELL BEING OF THE COMMUNITY THAT DAY TO DAY DECISIONS AND POLICY MAKING SHOULD FUNCTION EFFECTIVELY AND THIS PARTICULARLY DURING THE PERIOD WHEN THE REVIEW FORESEEN IN PARAGRAPH 7 IS UNDER WAY. WITH THIS OBJECTIVE IN MIND ALL MEMBER STATES UNDERTAKE TO DO THEIR BEST TO ENSURE THAT COMMUNITY DECISIONS ARE TAKEN EXPEDITIOUSLY AND IN PARTICULAR THAT DECISIONS ON AGRICULTURAL PRICE FIXING ARE TAKEN IN TIME FOR THE NEXT MARKETING SEASON.

FCO PASS ADVANCE COPIES TO:-

FCO	PS/SOFS, PS/LPS, PS/PUS, BRIDGES, HANNAY, SPRECKLEY
CAB	SIR R ARMSTRONG, FRANKLIN, ELLIOTT, WALSH
MAFF	ANDREWS, HADLEY
TSY	PS/CHANCELLOR, SIR K COUZENS, HANCOCK, MICHELL, ASHFORD THOMSON, MISS WRIGHT (+7 COPIES)
NO 10	ALEXANDER

BUTLER. [ADVANCED AS REQUESTED]

FRAME GENERAL
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CONFIDENTIAL

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CONFIDENTIAL
FRAME GENERAL
FM UKREP BRUSSELS 300956Z MAY 80
TO F L A S H FCO
TELEGRAM NUMBER 2653 OF 30 MAY
INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG

Mufaxed to the queen 30/5

FOREIGN AFFAIRS COUNCIL, 29-30 MAY

CONVERGENCE/BUDGETARY QUESTIONS

1. AT THE END OF THE MEETING REPORTED IN MY TELNO 2648 THE PRESIDENCY CIRCULATED THE TEXT, CONTAINED IN MIFT, EMBODYING THE CONCLUSIONS REACHED ON THE UK BUDGET PROBLEM AND THE LONGER-TERM REVIEW OF COMMUNITY POLICIES. COLOMBO ASKED MEMBER STATES TO FORWARD THE TEXT TO HEADS OF GOVERNMENT AND URGED THAT GOVERNMENTS SHOULD ACCEPT THE CONCLUSIONS IN IT AS SOON AS POSSIBLE. HE ASKED THAT MEMBER STATES SHOULD INFORM THE PRESIDENCY OF THEIR DECISIONS EITHER DIRECTLY THROUGH CAPITALS OR VIA PERMANENT REPRESENTATIVES.

FCO ADVANCE TO :
FCO - PS/SOFS PS/LPS PS/PUS BRIDGES HANNAY SPRECKLEY
CAB - SIR R ARMSTRONG FRANKLIN ELLIOTT WALSH
MAFF- ANDREWS HADLEY
TSY - PS/CHANCELLOR SIR K COUZENS HANCOCK MICHELL ASHFORD THOMSON MISS WRIGHT (+ 7)
NO 10 - ALEXANDER

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ECFO 004/30

PS/No 10 Downing St.

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CONFIDENTIAL
FM UKREP BRUSSELS 300830Z MAY 80
TO FLASH FCO
TELEGRAM NUMBER 2648 OF 30 MAY.

FOLLOWING FOR PRIME MINISTER FROM FOREIGN AND COMMONWEALTH SECRETARY.

1. WE HAVE JUST FINISHED AN 18 HOUR MEETING ON THE BUDGET.

2. THE NEGOTIATION HAS BEEN TEDIOUS AND LABORIOUS. BUT THE ATMOSPHERE HAS THROUGHOUT BEEN CONSTRUCTIVE AND BUSINESSLIKE AND STEADY PROGRESS HAS BEEN MADE. COLOMBO AND THE ITALIAN PRESIDENCY HAVE BEEN HELPFUL AND EFFECTIVE, THE COMMISSION SOMEWHAT LESS SO. THE MAIN NEGOTIATION HAS BEEN BETWEEN THE GERMANS AND OURSELVES, WITH THE FRENCH BEING DRAGGED UNWILLINGLY BEHIND THE FORMER.

3. THE POSITION WE HAVE NOW REACHED IS AS FOLLOWS:

1980 WE SHOULD FIRST GET A REFUND OF 1175 WHICH WOULD REDUCE OUR NET CONTRIBUTION AS ESTIMATED BY THE COMMISSION, FROM 1784 TO 609. IN ADDITION, WE SHOULD BE REFUNDED THREE QUARTERS OF ANY INCREASE IN OUR UNADJUSTED NET CONTRIBUTION BEYOND THAT ESTIMATE OF 1784.

1981 THE NOTIONAL 1980 NET CONTRIBUTION FIGURE OF 609 (SEE ABOVE) WOULD BE INCREASED BY THE SAME PERCENTAGE AS THE INCREASE IN COMMISSION'S ESTIMATE OF OUR UNCORRECTED NET CONTRIBUTION BETWEEN 1980 AND 1981 - NAMELY FROM 1784 TO 2140 OR BY 19.9 PER CENT. THIS WOULD GIVE AN INITIAL REFUND OF 1410 AND A NET CONTRIBUTION, ON THE COMMISSION ESTIMATES, OF 730. IF OUR NET CONTRIBUTION EXCEEDED 730 WE WOULD PAY THE FIRST 20 MUA IN FULL HALF OF THE NEXT 100 MUA AND A QUARTER OF ANY RESIDUAL EXCESS

1982 UNLESS THE GENERAL REVIEW OF COMMUNITY FINANCES PRODUCES A DEFINITIVE SOLUTION IN THE MEANTIME, THE COMMISSION WILL MAKE PROPOSALS ALONG THE LINES OF THE 1980-81 FORMULA AND THE COUNCIL WILL ACT ACCORDINGLY.

4. WE ALSO FACED AN UNSUCCESSFUL ATTEMPT BY THE FRENCH, ABETTED ORIGINALLY BY THE COMMISSION, TO INSERT A ''GOOD BEHAVOUR'' CONDITION WHEREBY THERE WOULD HAVE TO BE A LINK BETWEEN OUR REFUND IN 1981 AND AGREEMENT ON 1981 AGRICULTURAL PRICES.

5. AS YOU WILL SEE WE HAVE NOW GOT A THREE YEAR SOLUTION WITH FIGURES FOR 1980 WHICH ARE HIGHER THAN WE WOULD HAVE HOPED AND FOR 1981 WITHIN OUR TARGET AREA AND BETTER THAN WAS ON OFFER AT LUXEMBOURG. FOR 1982 IT HAS, AS EXPECTED, NOT BEEN POSSIBLE TO GET A PRECISE FIGURE BUT THE FORMULA IS, I THINK, A REASONABLE ONE. ALTHOUGH WE HAVE NOT GOT A STRAIGHTFORWARD APPROACH BASED ON A CEILING ON OUR NET CONTRIBUTION, THE MIXTURE OF A LUMP SUM REPAYMENT AND A RISK SHARING FORMULA SETS CLEAR LIMITATIONS TO OUR NET CONTRIBUTION.

6. I AM CONVINCED THAT THIS IS THE LIMIT OF WHAT WE CAN NEGOTIATE AND I DO NOT BELIEVE THAT WE CAN WRING ANY MORE WORTHWHILE CONCESSIONS OUT OF OUR PARTNERS. IT IS TRUE THAT THEY ARE ANXIOUS TO SETTLE AND TO AVOID A CRISIS AND THE NATIONAL MEASURES ON AGRICULTURE WHICH THE FRENCH ARE THREATENING TO TAKE: AND WE HAVE BEEN ABLE TO CAPITALISE ON THIS. BUT I AM CLEAR THAT THEY ARE AT THE LIMIT OF THEIR SCOPE FOR MANOEUVRE AND THE LAST STAGES HAVE BEEN EXCEEDINGLY SLOW AND PAINFUL.

7. I HAVE NOT ACCEPTED THE PRESENT OUTCOME BUT HAVE SAID THAT I MUST NOW DISCUSS THE WHOLE SITUATION WITH YOU AND OUR COLLEAGUES.

8. AS YOU WILL HAVE SEEN FROM HIS TELEGRAM, PETER WALKER HAS MADE EXCELLENT PROGRESS ON SHEEPMEAT WHILE MAINTAINING A GENERAL RESERVE.

9. ON FISHERIES WE AGREED ON A TEXT WHICH GIVES NOTHING AWAY ON ACCESS AND SETS THE SCENE FOR NEGOTIATIONS IN THE FISHERIES COUNCIL, WHERE THEY BELONG.

10. THIS IS A BALD ACCOUNT OF A LONG AND COMPLEX MEETING. I HOPE TO DISCUSS IT ALL WITH YOU LATER TODAY.

FCO ADVANCE TO :
FCO - PS/SOFS PS/LPS PS/PUS BRIDGES FITZHERBERT
CAB - SIR R ARMSTRONG FRANKLIN ELLIOTT WLASH
MAFF- ANDREWS HADLEY
TSY - PS/CHANCELLOR SIR K COUZENS HANCOCK MICHELL ASHFORD THOMSON MISS WRIGHT (+ 7 COPIES)
NO 10 - ALEXANDER

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PS/L PS 2
Lord Bridges
Mr Hannay
Hd of ECD(E)
Mr Lankester
Mr Alexander } 10 Downing St

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OO ROME

RR COPENHAGEN

RR BRUSSELS

RR DUBLIN

RR LUXEMBOURG

RR THE HAGUE

T. Sy: Mr Hancock
Mr Mitchell
Mr Thompson

Cab. Office: Mr Franklin
Mr Elliott
Mr Walsh

MAFF: PS/S of S
Mr Hayes
Mr King

GRS 28Ø
CONFIDENTIAL
DESKBY 3Ø1715Z
FM PARIS 3Ø1645Z MAY 8Ø
TO IMMEDIATE FCO
TELEGRAM NUMBER 497 OF 3Ø MAY 198Ø
INFO IMMEDIATE UKREP BRUSSELS BONN AND ROME
INFO ROUTINE COPENHAGEN BRUSSELS DUBLIN LUXEMBOURG THE HAGUE

MY TEL NO 496
COMMUNITY BUDGET: FRENCH NATIONAL AGRICULTURAL MEASURES

1. WE HAVE SOUGHT CLARIFICATION FROM THE ELYSEE ABOUT THE APPARENT CONTRADICTION BETWEEN THE REFERENCE TO PUTTING AGRICULTURAL MEASURES INTO IMMEDIATE EFFECT IN THE COUNCIL OF MINISTERS' COMMUNIQUE AND THE LATER REFERENCE IN THE COMMUNIQUE TO FRANCE'S AGREEMENT TO THE RESULTS OF THE FOREIGN AFFAIRS COUNCIL. ELYSEE OFFICIALS HAVE TOLD US THAT IN THEIR VIEW THE AGRICULTURAL COUNCIL AGREED THAT MEMBER STATES' ACCEPTANCE OF THE PACKAGE WAS TO BE CONFIRMED BY MONDAY (UKREP TEL NO 2655). HENCE THE FRENCH GOVERNMENT'S NATIONAL MEASURES WOULD BE SUSPENDED UNTIL THEN. IF ALL MEMBER STATES HAD NOT SIGNIFIED THEIR AGREEMENT BY MONDAY, THE NATIONAL MEASURES WOULD THEN BE PUBLISHED AND COME INTO EFFECT. M MEHAIGNERIE TOOK THE

THEN BE PUBLISHED AND COME INTO EFFECT. M MEHAIGNERIE TOOK THE SAME LINE AT A PRESS CONFERENCE THIS AFTERNOON. OFFICIALS ADMITTED PRIVATELY THAT THE COUNCIL OF MINISTERS' COMMUNIQUE WAS DRAFTED HASTILY AND THAT THE SECOND PARAGRAPH WHICH CONTAINED THE UP TO DATE POSITION SHOULD HAVE BEEN READ FIRST.

2. IN RESPONSE TO ENQUIRIES FROM THE EMBASSY, MINISTRY OF AGRICULTURE OFFICIALS WOULD NOT BE DRAWN ON THE PRECISE MEASURES WHICH MIGHT BE IMPLEMENTED BEYOND THE VAGUE FORMULA IN THE COUNCIL OF MINISTERS' COMMUNIQUE. A PRESS HANDOUT GIVING DETAILS OF THE MEASURES, WHICH WAS TO HAVE BEEN CIRCULATED, HAS NOW BEEN WITHHELD.

3. THE ONLY FRENCH PAPER SO FAR TO REPORT THE RESULT OF THE FOREIGN AFFAIRS COUNCIL, LE MONDE THIS AFTERNOON, UNDER THE HEADLINE ''BRITISH EUROPE'' CRITICISES THE FRENCH GOVERNMENT FOR HAVING GIVEN MRS THATCHER EVEN MORE THAN PRESIDENT GISCARD AND CHANCELLOR SCHMIDT OFFERED AT THE LUXEMBOURG COUNCIL. THE GAULLIST RPR PARTY HAS ALSO CRITICISED THE AGREEMENT AS BEING AT THE EXPENSE OF FRENCH TAXPAYERS, WHO THUS BACAME ''THE PERMANENT HOSTAGES OF LONDON''.

HIBBERT

Prime Minister.

With regard to paragraph 3 above, Michael Alexander has just telephoned me from Paris to say that all the French media are presenting the Brussels proposals as a great victory for you and a defeat for France.

AWS
30/V.

IMMEDIATE

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mwfaxed to Chequers 30/5
cc Press office

PAFO ØØ5/3Ø

ZZ FCO

OO UKREP BRUSSELS

OO BONN

OO BRUSSELS

OO COPENHAGEN

OO DUBLIN

OO ROME

OO LUXEMBOURG

OO THE HAGUE

(FCO/ESH)

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Lord Bridges
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2 - No 10 Downing St.
3 - Treasury.
3 - Cabinet Office.
3 - MAFF.

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UNCLASSIFIED
FM PARIS 3Ø122ØZ MAY 8Ø

FLASH

TO FLASH FCO
TELEGRAM NUMBER 496 OF 3Ø MAY 198Ø
INFO IMMEDIATE UKREP BRUSSELS BONN BRUSSELS COPENHAGEN DUBLIN ROME LUXEMBOURG AND THE HAGUE

COMMUNITY BUDGET: FRENCH COUNCIL OF MINISTERS' MEETING

FOLLOWING IS THE EXTRACT ON COMMUNITY AFFAIRS FROM THE COMMUNIQUE ISSUED AFTER THE FRENCH COUNCIL OF MINISTERS' MEETING THIS MORNING:

"THE PRIME MINISTER PRESENTED MEASURES TO BE PUT INTO EFFECT TO COMPENSATE FOR THE DELAY IN THE AGRICULTURAL PRICE-FIXING OCCASIONED BY COMMUNITY INSTITUTIONS. THE COUNCIL OF MINISTERS OF THE COMMUNITY, WHICH MET IN THE COURSE OF THIS WEEK AT BRUSSELS, HAVE NOT, CONTRARY TO FRANCE'S WISH, REACHED AN AGREEMENT. IN CONFORMITY WITH WHAT HAD BEEN DECIDED AT THE COUNCIL OF MINISTERS

CONFORMITY WITH WHAT HAD BEEN DECIDED AT THE COUNCIL OF MINISTERS ON 21 MAY IT IS NECESSARY THEREFORE, WHILE ACTIVELY PURSUING THE SEARCH FOR COMMUNITY SOLUTIONS, TO PUT INTO EFFECT IMMEDIATELY THE REQUISITE HOLDING MEASURES. THESE MEASURES ARE FOUNDED ON THE STRICT RESPECT FOR THE COMPROMISE PROPOSED BY THE COMMISSION AT LUXEMBOURG ON 5-6 MAY 198Ø AND ACCEPTED BY EIGHT MEMBER STATES. THEY WILL BE APPLIED FOR AS LONG AS COMMUNITY PRICES HAVE NOT BEEN FIXED. FOR THE TIME BEING THEY COVER MILK AND BEEF, PRODUCTS FOR WHICH THE AGRICULTURAL SEASON BEGINS ON 1 APRIL.

THE COUNCIL OF MINISTERS HAS BEEN INFORMED OF THE PROPOSALS FORMULATED BY THE PRESIDENCY OF THE COUNCIL OF MINISTERS OF FOREIGN AFFAIRS ON 3Ø MAY 198Ø. TAKING INTO ACCOUNT THE RESULTS OBTAINED BY THE COUNCIL OF MINISTERS OF AGRICULTURE, WHICH PERMIT THE COMMON AGRICULTURAL POLICY TO BE PURSUED IN SATISFACTORY CONDITIONS, IT IS DISPOSED TO GIVE ITS AGREEMENT TO THESE PROPOSALS ON CONDITION THAT THEY ARE ACCEPTED IN THEIR ENTIRETY BY THE OTHER MEMBERS OF THE COMMUNITY, PARTICULARLY REGARDING THE LINK ESTABLISHMED BETWEEN THE REDUCTION OF THE BRITISH BUDGET CONTRIBUTION AND AGRICULTURAL PRICE-FIXING IN 1981''.

ADVANCE COPIES FCO: PS/SOS, PS/LPS, BRIDGES, HANNAY, SPRECKLEY
NO 1Ø: ALEXANDER, LANKESTER.
TSY: HANCOCK, MICHELL, THOMPSON
CABINET OFFICE: FRANKLIN, ELLIOT, WALSH
MAFF: PS/SOS. HAYES, RING
HIBBERT.

[ADVANCED AS REQUESTED]

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SENT/RECD AT 3Ø1255Z JC/TLG

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FM UKREP BRUSSELS 290830Z MAY 80
TO FLASH FCO
TELEGRAM NUMBER 2626 OF 29 MAY.

UK BUDGET PROBLEM: COMMISSION THINKING.

1. WE HAVE HAD THE FOLLOWING ACCOUNT OF THE LATEST COMMISSION IDEAS ON A SOLUTION TO THE BUDGET PROBLEM, WHICH EMERGED AFTER TWO MEETINGS OF INTERESTED COMMISSIONERS YESTERDAY:-

(1) THERE SHOULD BE A 3 YEAR AGREEMENT:

(2) FOR 1980 AND 1981 REFUNDS TO THE UK WOULD BE KEPT WITHIN A GLOBAL ''ENVELOPE'' OF 2500-2600 MEUA (DESCRIBED AS THE AMOUNT ON OFFER AT LUXEMBOURG):

(3) FOR 1980 THERE WOULD BE A FLAT-RATE PAYMENT OF 1100-1200 MEUA WITH THE UK BEARING ANY EXTRA RISK:

(4) FOR 1981 THE RISK (DEFINED AS THE INCREASE IN THE UK'S UNCORRECTED NET DEFICIT BETWEEN 1980 AND 1981) WOULD BE SHARED BETWEEN ALL MEMBER STATES IN AN AGREED PROPORTION. (IT WAS NOT CLEAR HOW THIS WOULD BE COMPATIBLE WITH THE GLOBAL ''ENVELOPE'' IN (2)):

(5) THE PAYMENT TO THE UK IN RESPECT OF 1981 WOULD NOT REPEAT NOT BE ENTERED INTO THE 1981 BUDGET UNTIL AFTER THE 1981 AGRICULTURAL PRICE SETTLEMENT, WHEN THERE WOULD BE A SUPPLEMENTARY BUDGET COVERING BOTH ELEMENTS:

(6) FOR 1982 THE COMMISSION WOULD MAKE PROPOSALS BEFORE JUNE 1981 BASED ON NEW ESTIMATES OF THE 1982 NET BALANCES OF MEMBER STATES.

2. WHEN THE LORD PRIVY SEAL DINED WITH THE PRESIDENT OF THE COMMISSION ON 28 MAY, THE LATTER EXPLAINED THE COMMISSION IDEAS REPEATED ABOVE. THE LORD PRIVY SEAL MADE THE FOLLOWING COMMENTS:-

(I) THERE WERE A CONSIDERABLE NUMBER OF ASPECTS OF THE COMMISSION IDEAS WHICH WE COULD NOT ACCEPT. IN GENERAL THEY REPRESENTED A SHARP STEP BACKWARDS SINCE LUXEMBOURG AND WOULD NOT THEREFORE BRING A SETTLEMENT CLOSER:

(II) THE PRESIDENCY WAS IN CLOSE TOUCH WITH A NUMBER OF MEMBER STATES AND WAS WORKING ON ELEMENTS FOR A

 / SETTLEMENT.

SETTLEMENT. IT WOULD BE MOST UNFORTUNATE IF THE COMMISSION CUT ACROSS THESE EFFORTS BY PUTTING FORWARD IDEAS WHICH WOULD NOT BE ACCEPTABLE TO US:

(III) SO FAR AS THE 1980 FORMULA WAS CONCERNED WE DID NOT ACCEPT THAT WHAT HAD BEEN AN OFFER AT LUXEMBOURG HAD BEEN A FIXED REBATE OF 1250 MEUA. WHAT HAD BEEN ON OFFER HAD BEEN A LIMITATION ON OUR NET CONTRIBUTION OF 538 MEUA, THE PRECISE SIZE OF THE ACTUAL REBATE DEPENDING ON THE OUTCOME OF 1980 EXPENDITURE. BY TURNING THIS APPROACH ROUND AND BY USING A NOW UITE UNREALISTIC BASE FIGURE OF 1784 MEUA INCORPORATING 3 PER CENT NEGATIVE MCAS FOR AN UNCORRECTED 1980 NET CONTIBUTION ON WHICH TO CALCULATE A REFUND WE WERE BEING OFFERED NOT SOMETHING CLOSE TO THAT OFFERED AT LUXEMBOURG AS THE COMMISSION AVERRED BUT SOMETHING FAR REMOVED FROM IT:

(VI) THE SUGGESTION THAT THE REFUND FOR 1981 SHOULD NOT BE INCORPORATED IN THE 1981 BUDGET PAPER BUT ONLY PROVIDED FOR IN A SUPPLEMENTARY BUDGET TO BE PUT FORWARD AFTER THE AGRICULTURAL PRICE SETTLEMENT WAS FUNDAMENTALLY OBJECTIONABLE. IT REPRESENTED A THINLY DISGUISED MEANS OF GETTING US TO ACCEPT AN AGRICULTURAL PRICE SETTLEMENT IN 1981 WHICH WE WOULD NOT OTHERWISE WISH TO DO. EXPENDITURE MUST BE PROVIDED FOR IN THE MAIN 1981 BUDGET ALTHOUGH THERE COULD BE A NEED TO ADJUST THE AMOUNT UPWARDS AT THE END OF THE YEAR TO TAKE ACCOUNT OF ANY UNEXPECTED RISE IN OUR NET CONTRIBUTION:

(V) THE SUGGESTED FORMULA FOR THE THIRD YEAR WAS TOO VAGUE. WHILE IT MIGHT BE POSSIBLE TO ENVISAGE A NON-QUANTIFIED FORMULA FOR ESTABLISHING THE ARRANGEMENTS FOR THE THIRD YEAR IT COULD NOT LEAVE THE WHOLE MATTER COMPLETELY OPEN AS THE COMMISSION SUGGESTED.

3. IT IS NOT CERTAIN HOW THE COMMISSION WILL NOW PROCEED. MR JENKINS IS SEEING COLOMBO AT 1000 HOURS ON 29 MAY.

/ THE COMMISSION

THE COMMISSION ARE THEN MEETING AGAIN TO CONSIDER THEIR IDEAS FURTHER. MR JENKINS HAS CERTAINLY REGISTERED OUR OBJECTIONS, PARTICULARLY (IV) ABOVE, AND MAY TRY TO SEEK IMPROVEMENTS. BUT HE EMPHAISED THAT THE ATMOSPHERE IN THE COMMISSION WAS NOT HELPFUL TO US.

4. THE LORD PRIVY SEAL ALSO RAISED WITH MR JENKINS THE UNSATISFACTORY WAY IN WHICH THE DISCUSSION OF THE FISHERIES TEXT WAS GOING (MY TELNO 2606) AND URGED HIM TO TRY TO GET DISCUSSION BACK ONTO THE BASIS OF THE EARLIER COMMISSION PROPOSALS.

FCO ADVANCE TO:
FCO - PS/SOFS PS/LPS HANNAY SPRECKLEY BRIDGES
CAB - FRANKLIN ELLIOTT WALSH
TSY - PS/CHANCELLOR PS/CST PS/FST SIR K COUZENS HANCOCK MICHELL
MRS LOMAX JA THOMSON MISS WRIGHT(+7 COPIES)
NO 10 -ALEXANDER

BUTLER

[ADVANCED AS REQUESTED]
[COPIES SENT TO NO 10 DOWNING STREET]

F I L E S

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PS/LPS
PS/PUS
LORD BRIDGES
MR HANNAY
MR EVANS

COPIES TO:

TREASURY (MISS WRIGHT RM 18/G)
MR FRANKLIN)
MR ELLIOTT } CABINET OFFICE
MR WALSH)
MR S RAY ODA

Mr Whitmore

JRW
29 V

With the compliments of

THE PRIVATE SECRETARY

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

Your Reference

Copies to:

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.....In Confidence

CAVEAT.....

SUBJECT:

May I first of all thank you, Mr Chairman, not only for having called this meeting but for the tireless way in which you have sought to find a solution to the very serious problems which face us this afternoon. No one could have done more. I only hope you are going to be successful for it is certainly the wish of my Government to get our budgetary problem settled and with it the agricultural crisis and the sheepmeat and fisheries issues.

There is, I assure you, no disposition on the part of Britain to be unreasonable. We have over this last year on a number of occasions sought to bring home to our colleagues the underlying unacceptability of the position which has arisen. So far from the situation improving it has got considerably worse, culminating in the figures produced by the Commission which I am sure you will have in front of you.

/A single

Enclosures—flag(s).....

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A single glance at the table in front of you shows the unfairness of the position. Britain in the last column on the right is expected to make a net contribution to the financing of the Community on a scale quite out of proportion to logic or fairness. At a time when we are restricting Government expenditure, the British people are being asked to deny themselves benefits when our programmes on education, hospitals, roads and the rest of it are being cut. We are being asked to finance nations in the Community richer than ourselves.

I wonder how many of you had you been in the position in which we find ourselves, would have been so patient and so forebearing. I am of course well aware that if we contribute less somebody has to pay more but with the exception of Germany, no one at the moment is paying anything at all. Indeed some of the figures in 1981 are very large. Ireland will be a net beneficiary to the tune of 700 meu; Italy 840; Belgium 600 or thereabouts; and even France is, to coin a phrase, in broad balance neither paying nor receiving. A situation which I may say would suit my Government very well indeed.

/But you will

But you will I hope have noted that we have not taken up the position that we are not prepared to make a net contribution nor have we insisted on being in the sort of position the French are in at the present time. Starting from a position in which we sought a broad balance we have, in the hope of getting a solution, made a series of compromises. Our problem is in two parts. First the amount of money, and secondly the duration.

On duration, though we want five years, we have said that we will accept three. The arguments for this are I believe very powerful. Nobody who has lived through this last year will wish to see it repeated. Nobody will wish to see the Community in a state of perpetual crisis concentrating all its efforts on trying to solve this budgetary problem. There are better things for us to do. To suggest that a temporary alleviation of our difficulty is adequate is merely to put off the argument for a few months. It may well be that before the end of three years it will be necessary for a radical revision of the Community's financing to take place.

/Very well

Very well, if so that would of course supercede any arrangement made specifically for Britain. But have we any guarantee that such a radical revision will either be easy or likely to be achieved in a short time. The other argument against a solution lasting for three years is I understand that the figures for 1981 and even more for 1982 are not only speculative but frighteningly high. Therefore no country it is said could undertake with figures of that magnitude to accept an obligation for the third year. I confess that I find that a surprising argument. Put it round the other way. What then is Britain being asked to do. Britain is being asked to accept the responsibility for the whole figure however big it may be. I would have thought that for Nine to share the risks would be a more communautaire approach than to expect one country to do it alone.

May I remind you of how matters were left at the European Council. An offer was made to us that would have limited our net contribution in 1980 to 538 units of account. This would still have left us, the third poorest member of the Community, bearing the second largest burden after Germany and paying twice as much as France. Though Germany would have been the largest contributor they would still be paying less than our liability for 1980 as it now stands.

/We were

We were told that this offer was only available for a single year, though there were various formulae giving us a much higher net contribution in the second year. At the same time we were expected to agree to the other parts of the package. Sheepmeat, agricultural prices, fisheries and so on. I do not think it is surprising when you look at the figures in that table that we found that very difficult to accept. Yet my Government genuinely wishes to find a solution which could be acceptable to all of us even though it may entail Britain making a disproportionate contribution.

What therefore we propose is a solution of three years duration, with the first year starting at the offer made in Luxembourg limiting our net contribution to 538 meu. We would then propose, since we do not believe that our contrib-tion should be static and that we should share in proportion the rises in future budgets, we believe that that figure of 538 should in the next two years be indexed to constitute the same proportion of our unamended contribution.

I have a table which I would like to circulate which shows what the result of that would be for our partners in the Community. You will see that we are still the second biggest contributor though the German contribution has risen steeply but is still not yet as large as our unamended figure in 1981.

/I believe

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I believe this is the sort of settlement which my Government, rather reluctantly, would be prepared to accept. It still leaves us with a very heavy burden but we are prepared to do so in the interests of the Community and of settling the problem. I do not believe that any objective observer looking at those figures would believe the British proposal to be ungenerous, and I do not believe that my colleagues will think it so either.

I would not wish to go deeply into the other questions which are still to be settled. The Agriculture Ministers have been meeting for this purpose. But I would like to put one or two points very shortly. It was not my Government which linked the settlement of farm prices with the British budgetary problem. It was the President of France who made it clear on a number of occasions that there would be no solution of the British problem without an agreement on farm prices. president Giscard was of course perfectly entitled to say so but it follows from that statement that there can be no settlement of farm prices without a solution to the budgetary problem. French proposals, which I understand are now on the table, are designed to circumvent the lack of agreement about farm prices. I must say to my French colleague in all candour that the proposals which his Government are making seem to be not only contrary to both the law and the spirit of the Treaty of Rome but calculated to disrups the Community's common agricultural policy.

/It is

It is no secret that we in Britain would like to see a reform of the CAP but we certainly do not want to disrupt it in a way which makes it unworkable, and I would hope very much that the French Government will reconsider the position that they have taken up, for it would be a more far-sighted man than I am who could foresee the consequences of such a unilateral action.

I do not believe that the remaining two problems are by any means insoluable. The sheepmeat problem so far as we are concerned is not an Anglo French quarrel. The proposal put up by the Commission seems to us to duplicate the mistakes of the past. Having experienced the consequences of intervention in the various products in surplus, is it really the intention of the Community to do it all over again with sheepmeat. Ought we not to learn the lessons of our mistakes in the past. In a Community which only produces 60% of the sheepmeat it consumes, are the proposals put forward by the Commission really designed to suit the interests of producer and consumer alike. I doubt it. Of course France has a problem. So have we got a problem.. But we must devise a solution which is fair to both and which does not distort both European and world markets at the expense of the consumer in a way which is unacceptable.

/As far

As for fisheries - don't know what to say about fisheries.

Mr Chairman, I believe that the proposals that I have made are reasonable. It cannot be the wish of my colleagues to put Britain at such a disadvantage as the figures in front of you demonstrate.

/Are we not

Are we not acting in a spirit of compromise when we say that we are prepared, though we are the seventh poorest country, to be the second biggest contributor. Is not that evidence of our wish to be both constructive and conciliatory.

If any should say that these figures place an intolerable burden on them, let me remind them that at the moment we bear the whole of that burden. What we ask is that you should share it with us.

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Europe Pol
Budget

cc B. Ingham / Italy
cc Masters
Top Copy: Italy, May 80
Visit of Signor Colombo, 28 May 80

10 DOWNING STREET

From the Principal Private Secretary

29 May 1980

Dear Paul,

EUROPEAN COMMUNITY: VISIT OF SIGNOR COLOMBO

The Prime Minister gave a dinner last night for Signor Emilio Colombo, the Italian Foreign Minister. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and Mr. Franklin were also present. Signor Colombo was accompanied by Signor Cagiati, the Italian Ambassador in London, and Signor Ruggiero.

The Prime Minister said that the problem of the British contribution to the Community budget had got bigger rather than smaller since the meeting of the European Council in Luxembourg. She hoped that progress towards its solution would be made at the meeting of the Foreign Affairs Council the following day. If the issue was still substantially unresolved by the time the European Council met on 12/13 June, there would be a crisis of unprecedented proportions at Venice. She wondered whether the other member states were genuinely seeking a solution or not.

Signor Colombo said that he hoped very much that the question would not have to be referred again to the European Council. He agreed that the situation had got worse not better since Luxembourg, but he believed nonetheless that all the members of the Community wanted a solution. The fact was, however, that every country had its own problems, and to all of them their difficulties had seemed more complicated after their return to their capitals from Luxembourg. Chancellor Schmidt, for example, had had serious trouble with his Finance Minister, Herr Matthofer, and there was something of a Cabinet crisis on this issue in Bonn. Similarly, President Giscard had been attacked on his return to Paris by supporters of M. Chirac. If progress on the problem of the British budget contribution was to be made, account had to be taken of everybody's difficulties, including the UK's, and of each member country's approach to the matter.

The Prime Minister commented that some of the other heads of government had dramatised their problems. In fact their difficulties were small in relation to the UK's. Even if a settlement had been agreed in Luxembourg on the basis of a British contribution of 538 mecus for 1980, the UK would still have been the second biggest net contributor by far.

/Signor Colombo said

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Signor Colombo said that he believed that support was growing for the idea that there should be a fundamental review of the Community's financial arrangement, while a "truce" was called in the short term. Under this approach a precise mandate, with a firm timetable, would be given to the Commission to study the restructuring of the Community's finances. This might include a provision that when agricultural surpluses accumulated beyond defined limits, they would be financed only partially by the Community budget and for the rest by national funds.

The Foreign and Commonwealth Secretary said that the problem needed a more fundamental attack than that. The Chancellor of the Exchequer commented that what Signor Colombo had described was only one element of a mid-term solution which did not, in any case, remove the urgent need to deal with the immediate problem of the UK contribution.

Signor Colombo said that when he had referred to a "truce" for the period prior to a comprehensive reshaping of the Community's financial arrangements, he had in mind a provisional solution which dealt with the problem over the next two years. At Luxembourg there had been a proposal on the table for 1980: this had envisaged a UK net contribution of 538 meua for that year, and this meant that a burden of 1240 meua would have been transferred to the Eight. But because of Chancellor Schmidt's domestic difficulties since Luxembourg, this proposal no longer existed. His soundings over the last few weeks had shown, however, that it might be possible to bring forward another proposal for 1980 which entailed transferring a smaller burden to the other member countries. As regards 1981, Mrs. Thatcher had proposed at Luxembourg that the British net contribution should increase in proportion to the growth of the budget as whole. Another approach might be to distribute the increase in the UK's contribution by fixed proportions round the member countries: for example, if the UK's net contribution went up by 100 meua in 1981 X% might be paid by the UK and Y% by the other countries. We virtually had a firm figure for 1980, even though some small change would be needed to accommodate Chancellor Schmidt's difficulties, and it should be possible to get an agreed figure for 1981 without too much difficulty. 1982, however, was much more of a problem. It was very difficult to see what the UK's contribution in that year would be. If the fundamental review of the whole system which he had earlier suggested was completed in the next two years, the problem would disappear. But we could not be sure that the system would have been fundamentally reformed by 1982. If it had not been restructured and we were still using the existing system, it remained very difficult to forecast what the figures would be for that year. All this pointed to the need to build on what was done for the first and second years to "open a window" for the third year which would allow the Community to deal with the situation if the system had not been reformed in the meantime. An approach on these lines might offer the way ahead, but he had to admit that it was not at present accepted by either the French or the Germans. He had already mentioned the Germans' difficulties over the figure for the first year. The French, on the other hand, saw problems about the second year: they felt that they were being asked to decide now what the UK's net contribution should be but without any guarantee on agricultural prices for 1981. What was

/needed

ded - though he had no formulation to offer yet - was an arrangement which balanced the certainty of the budget solution for the second year with some measure of security for the French on farm prices.

The Foreign and Commonwealth Secretary said that Signor Colombo appeared to be suggesting a trade-off in the second year between the budget solution and agricultural prices. But this would only compound the follies of the CAP of the last 10 years and would make the problem of reforming the Community's finances even more difficult than it was now. The Chancellor of the Exchequer added that everybody had been agreed in 1972 on the need for radical reform of the CAP. But this had not been achieved eight years later and nobody knew when it would be. In the meantime the UK was paying an unfair share of the cost of the unreformed policies. Britain needed a solution that dealt with the problem until a fundamental reform took effect. An acceptable approach would be to agree upon the UK's net contribution in terms of a proportion of its unadjusted contribution to the budget for 1980 and then to apply this principle to all subsequent years until such time as there was a permanent solution resulting from the kind of fundamental review which Signor Colombo had been advocating.

The Prime Minister said that just as Chancellor Schmidt now thought that he had been too generous with his offer at Luxembourg, so she believed that she had been too forthcoming in agreeing on a figure of 538 meua for 1980. A net contribution of this size would still make the UK the second largest contributor by a long way, despite the fact that our income per head was well below the average of the Community as a whole. Nonetheless, she had agreed to this figure in Luxembourg and she stood by it now.

Signor Colombo said that it was essential to oblige the institutions of the Community to find solutions to the problems facing the member countries: otherwise empirical solutions would have to be adopted and these were likely to be damaging in one way or another. This was why it was important to fix a timetable for financial reform. If a radical solution was not found, there was no doubt that the Eight would have to make larger contributions to the budget in order to reduce the burden on the UK. He had no doubt that all nine member countries wanted a fundamental solution.
Signor Ruggiero added that the truce which Signor Colombo had mentioned earlier would apply to the short term. It would be a compromise which sought to alleviate the problem of the budget but not to solve it. Part of the truce would have to be higher agricultural prices. An approach of this kind was in keeping with the natural logic and habit of the Community. Did the UK accept the idea of a truce?

The Prime Minister said that she had no difficulty in agreeing to the concept, but everything depended on the terms of the truce.

Signor Ruggiero said that the terms of the truce had to be negotiated. Once that was done, the UK would have all the weapons in its hands to negotiate the peace - the permanent reform of the Community's financial arrangements. Surely the UK did not want to try to negotiate the peace while still fighting. This was the case for the truce, which

/would embody firm

uld embody firm arrangements for the first two years and a window on the third year. Replying to a question by Lord Carrington, he said that he could not at present put a figure on the fixed ceiling for the UK contribution in the first year. Signor Colombo interjected, however, that it would have to be "a little more" than 538 meua.

The Foreign and Commonwealth Secretary said that 538 meua for 1980 and indexed thereafter was as far as we could go. We had after all argued for broad balance at Dublin and then in the New Year had told Signor Cossiga that we were prepared to go up to a net contribution of 400 meua. We had moved a very long way and could go no further. The Prime Minister added that we had been trying to find a solution to the UK's problem for over a year. What hope was there that the Community could tackle successfully the much bigger issue of fundamental reform of its finances in as little as two years?

Signor Colombo said that if a formula for the British contribution was agreed for the first and second years, it was inconceivable that it would not be used for the third year if there had been no reform in the meantime. The history of the Community showed that once something of this kind was established, it was very difficult not to carry on with it.

The Chancellor of the Exchequer said that the conditions of the truce must endure until the peace treaty had been negotiated, and we had no idea how long this would be. The Prime Minister said that she was not convinced by what Signor Colombo had said about the third year. It was likely that at the end of the second year, the Community would come up against the 1% VAT ceiling, and this was likely to lead the other heads of government to say that the UK could have a solution for the third year, provided the 1% VAT ceiling was breached. But the moment we went above the ceiling, we were abandoning any prospect of reforming the CAP. We must have a solution for the third year which prevented this happening.

Signor Colombo said that one way of dealing with the Prime Minister's concern would be for the mandate to the Commission to say that in studying how the Community's finances might be reformed, they should exclude the possibility of going above the 1% VAT ceiling. Signor Cagiati added that the Prime Minister's point about the 1% VAT ceiling could be reversed: the UK could argue that unless the Community accommodated them on the budget, they would not agree to go above the 1% VAT ceiling.

The Chancellor of the Exchequer said that Signor Colombo's suggestion about the Commission's mandate was part of the peace treaty. We had to have a truce that lasted three years. If it was agreed that the formula for the first year worked in the second year as well, why should it not govern the third year rather than some much vaguer arrangement? The Foreign and Commonwealth Secretary said that public opinion in the UK was such that we had to have a settlement that was cast iron for three years: the British Government could not sell anything less at home. He believed that our partners were reluctant to agree to a firm arrangement for the third year because the budget figures for 1982 were so big and so speculative that they did not want to accept the risk-sharing which a reduction in the UK's net contribution required. Mr. Franklin added that the UK did not believe

/that a radical reform

that a radical reform could be agreed and implemented in two years. But if we were wrong, the new system could be introduced in time to take care of the third year. What was needed now therefore was an arrangement for the third year on the same lines as that for the first and second years but on a contingency basis.

Signor Ruggiero said that if the UK stuck out for arrangements which applied uniformly to all three years, the Eight would argue that the base line should be less favourable to the UK than what had been proposed in Luxembourg for the first year. They would say that what Britain gained on duration they should lose on the amount. If he were in the UK's place, he would prefer to create in the first and second years a better precedent for the third year. Signor Cagiati said that if the agreement extended explicitly to the third year, this would reduce the pressure on the Community to go for fundamental reform. What was required was a solution that formally covered the first two years but in practice extended to the third, fourth, fifth years and so on. It might be possible to say in the mandate for the Commission that the problem had to be solved in two years but if it was not, the interim solution would continue: this would avoid mentioning the third year. Signor Colombo said that he had suggested his approach because everybody was uncertain about the third year: in looking ahead to 1982 we were entering the unknown, though it was worth bearing in mind the corrective mechanism would still exist in that year.

The Prime Minister said that she could not accept an arrangement which left the third year unclear. She could not contemplate having a wrangle year after year. It would be better to have one big row early on and reach a lasting solution. She would be prepared to accept a formula which provided that, in the absence of a permanent solution being introduced in the third year, the UK net contribution for that year would be no bigger as a proportion of the Community budget than it had been in the second year. The Chancellor of the Exchequer said that we should not forget that of the first two years five months had already gone. For the purpose of the UK's domestic financial plans he would have to take account in less than 12 months' time of what our net contribution in 1982 would be. This meant that if 1982 was left undecided now, we should have to reopen the budget issue again in less than a year. If the formula being suggested for years one and two was a device which shared equitably the risks and burdens, how could it be unreasonable to apply it to the third year when we were all faced with uncertainty?

Signor Colombo said that he was making a big effort to see that everybody understood everyone else's problem. He was trying to ensure that there were no victors and no vanquished. But he also had to consider what would happen if there was no agreement on the budget. It would mean that there would be no agricultural price increases on 1 June: on the other hand, national aids would lead to the break-up of the Community. It would mean also that there was no budget for 1980; nor could the 1981 budget be drafted. Failure to reach internal agreement would seriously reduce the ability of the Community to act cohesively on the international scene. He was therefore trying to find a solution acceptable to everybody and he believed that what he had in mind was a step forward from Luxembourg.

/The Prime Minister

The Prime Minister said that if the French introduced national aids, it would be the end of the CAP. If the French acted in this way, it would be very difficult for the British Government to stand idly by and do nothing. National aids would produce yet bigger surpluses, but the UK were not prepared to finance them. She hoped that there would be a serious negotiation in the Foreign Affairs Council the following day and that substantial progress towards a solution would be made. But if that did not happen, she was ready for the European Council to resume their discussion of the problem at Venice.

I am sending copies of this letter to Martin Hall (Treasury), Garth Waters (Ministry of Agriculture) and David Wright (Cabinet Office).

Yours ever,

Alex Whitmore.

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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Copied to:- Master set
Euro Pol: CAP: Pt 5
Fishing Ind: Pt 3
Italy: May 80: Colombo

EUROPOL

10 DOWNING STREET

From the Principal Private Secretary

28 May 1980

Dear Paul,

EUROPEAN COUNCIL

The Prime Minister met the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture this morning to discuss the present position on outstanding Community issues and to settle the line to be taken at the working dinner with Signor Colombo this evening and at the Foreign Affairs Council tomorrow. Mr. Franklin was also present. The meeting had before it Mr. Franklin's minute of 27 May 1980.

FARM PRICES

The Minister of Agriculture said that the French had now told the Commission that they were proposing to introduce national aids which would give their farmers price increases that were equivalent to the figures agreed by the Eight. The Commission were likely to say that they needed more information about the French proposals and wanted more time to consider them. Nonetheless, the indications were that the French would introduce national aids at the end of the month. We should make it clear that action of this kind by France would be contrary to the Treaty of Rome and that if the French went ahead, the consequences for them would be very serious. We should do all we could to rally our partners against the French and not let them simply acquiesce in unilateral action by France. If we did nothing, France would be seen by the rest of the Community to be getting away with it again and our general position in relation to our other partners would inevitably be weakened, with implications for the negotiations on other issues.

It was pointed out in discussion that if the French acted illegally on national aids as well as on sheep meat, this would make it easier for us to withhold our VAT contribution.

UK BUDGET CONTRIBUTION

The Chancellor of the Exchequer said that he had had a number of useful bilateral meetings in the margins of the previous day's meeting of ECOFIN. Herr Lahnstein had told him that Germany's internal budgetary problem was not an insuperable obstacle to settling the issue of the British budget contribution: a supplementary budget at the time of the Federal elections would be difficult for the Germans but not impossible. Signor Pandolfi had told him that if there was to be

/a budget settlement

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a budget settlement lasting three years, the figure for the first year would have to be higher than 538 meua and he had mentioned a figure of 600 meua. He was also doubtful whether a figure could be fixed for 1982. At the Council meeting itself nobody had seriously criticised the Commission's paper and they had agreed that it should be submitted to the Foreign Affairs Council as a basis for discussion. Although our aim of a settlement lasting three years was acknowledged, the meeting had echoed Signor Pandolfi's doubts about the feasibility of settling on a figure for the third year. No-one, however, thought that any agreement could apply to 1980 only. There was increasing concern in the Council about the inevitable collision between the 1% VAT ceiling, the growth of CAP expenditure and the problem of solving the issue of our budget contribution. Other members of the Council appeared to accept the need for all to share in the risks of further growth in the budget and in discussing the Dutch refund-based approach to the problem of our contribution, they had recognised the need for indexation. He had developed this idea since the meeting of the Council and had now worked out the outline of a scheme which provided a refund indexed in line with growth of the Community Budget (the Chancellor gave his colleagues at this point a note of the figures for the scheme). Although our partners would almost certainly regard the scheme as too favourable to us, it might be worth introducing into the negotiations at some point.

Mr. Franklin said that there was likely to be considerable difficulty in getting a precise figure agreed for 1982, whatever solution we went for, because of the uncertainty over how much room there would be within the 1% VAT ceiling. There would in any case have to be a major review of the Community's finances some time during the next 18 months. For these reasons it might suit our interests better to have a formulation which required the Commission to propose a figure for the third year taking account of the outcome of any general review of the Community's financial arrangements, but with a commitment that if there was no comprehensive solution our net contribution in 1982 should be limited in the same way as that for 1981.

The Foreign and Commonwealth Secretary said that he was not at all sure that there would be a serious discussion of our budget problem at the Foreign Affairs Council. Monsieur Francois-Poncet would not be present, and it now seemed likely that Herr Genscher would not be there either. Nonetheless, we should make it clear that we were ready to try to make progress towards a solution.

In discussion it was agreed that the Foreign and Commonwealth Secretary's opening position should be the proposal we had made in Luxembourg (line 2 of the table attached to Mr. Franklin's minute of 27 May). If our partners showed any readiness to come towards us, he should be ready to move to Mr. Jenkins' figure of 586 meua for 1980, though the corresponding figures for 1981 and 1982 should be based not on line 8 of the table attached to Mr. Franklin's minute but on the 72% formula of line 6. It was important that our net contribution should not rise above 700 meua in any one year. It might make discussion in the Council too complicated to float the Chancellor of the Exchequer's new formula and it would be better therefore not to use it at this stage.

/It was agreed that

It was agreed that if there was no progress at the Council and if the French went ahead with the introduction of national aids, we should need to respond quickly. One possibility was to impose levies on imports from France to compensate for the disadvantages to which we would be put nationally by French levies on British sheep meat and by the French Government's assistance to their farmers. There might, however, be a number of difficulties about proceeding in this way, and there was agreement that it would be better to respond to illegal French actions by withholding our VAT contribution to the Community Budget. The Cabinet Office should look urgently at the possibility of delaying by two or three days our VAT contribution for May, if this had not already been paid over. A step of this kind would not come as a surprise to our partners, since the Foreign and Commonwealth Secretary had warned Community Ambassadors the previous day that if the French did anything illegal, we would withhold.

SHEEP MEAT

It was agreed that there could be no agreement on a sheep meat regime without a settlement of the budget problem. Moreover, the Prime Minister would be seeing Mr. Muldoon at the weekend and there could not therefore be an agreement on sheep meat before then. The Minister of Agriculture should accordingly explore at the Agriculture Council later today a system of variable premia for the United Kingdom and Ireland. He should also seek to establish how it was proposed to dispose of surplus sheep meat that would result from any intervention in France.

FISH

The Minister of Agriculture said that the British fishing industry was now in an explosive frame of mind, and if any text dealing with principles mentioned equal access, there was likely to be an outcry. The wording which we had put to the Germans ought to satisfy them, though they would probably not accept it because they wanted some recognition of the commitment to equal access at least outside the 12 mile limit. Because the phrase "equal conditions of access" appeared in Article 2 of the basic fisheries regulation which had been codified and agreed by the last Government in 1976, we were on weak legal ground in seeking a formula which did not mention equal access.

Mr. Franklin said that the French were now lining up with the Germans on fish. Germany was trying to pre-judge in their own favour the negotiation on a fisheries agreement which would inevitably have to take place. They were seeking now a movement of substance on our part which would go beyond either of the two formulae set out in his minute. We could not agree to that. We were simply trying to preserve our existing position prior to the negotiation.

The Prime Minister said that fish was a major political issue which, if it went wrong, could lead to our eventual withdrawal from the Community.

It was agreed that at the Foreign Affairs Council the Foreign and Commonwealth Secretary should not move from the form of words which the Minister of Agriculture had put to the Germans in bilateral talks.

/MEETING WITH SIGNOR COLOMBO

MEETING WITH SIGNOR COLOMBO

It was agreed that the line to be taken with Signor Colombo later today was to tell him that we were still seeking a settlement lasting three years and embodying the kind of net contribution which we had indicated at Luxembourg. We should make it clear that if a satisfactory settlement was not reached, the Community would be facing a very serious crisis. We should also let Signor Colombo know that we were totally opposed to any French plan to introduce national aids for their farmers and that if France went down this road, it would be necessary to respond immediately. If he pressed us on the need to reach agreement on sheep meat and fish in parallel with movement towards a budget settlement, we should explain to him the efforts we were continuing to make.

I am sending copies of this letter to Martin Hall (Treasury), Garth Waters (Ministry of Agriculture) and David Wright (Cabinet Office).

Yours ever,

Clive Whitmore.

Paul Lever, Esq.,
Foreign and Commonwealth Office.

Original in GR

JS

cc DI FCO IMT Euro PM

10 DOWNING STREET

THE PRIME MINISTER

28 May 1980

Dear Roy,

Thank you for your letter of 14 May about the UK contribution to the Community budget.

As you know, no agreement has yet been reached with our Community partners on a solution to the UK's budgetary problems. The European Commission have put forward proposals for extra spending by the Community in the UK under the aegis of a new regulation to be made under Article 235 of the Treaty of Rome. Under these proposals, Community expenditure would be directed to specially disadvantaged regions or problem areas. The possibility of expenditure on exploitation of coal resources and measures to promote transport infrastructure and relieve urban decay has also been mentioned. These proposals form the basis for negotiation with our Community partners and have been agreed in outline with them. However, it is too early to say what arrangements will emerge from further negotiations; nor would I wish to curtail the scope of these negotiations by indicating the degree to which we would hope for flexibility in the new instrument.

/You also refer

JS

28 May

You also refer to West Yorkshire's loss of Assisted Area status after August 1982. As you will know, it is Government policy to concentrate national regional assistance in areas of greatest need. This policy inevitably restricts the areas for which Community receipts are available when such receipts are dependent on Assisted Area status.

Yours sincerely

Margaret Thatcher

Councillor J. Royston Moore

SECRET

Prime Minister 13 2

Dorty clerk 28/5

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

PRIME MINISTER

COMMUNITY BUDGET

I should like to explain a little more fully than was possible at your meeting this morning the suggestion I made about an adaptation in our interests of a refund scheme. It is in fact a variant of formula No 7 in the table attached to Mr Franklin's minute of 27 May to your Principal Private Secretary. attached.

2. At the Eco/Fin Council yesterday a number of other Member States expressed a preference for relating the solution to our problem to the size of the refund to us and not to our net contribution. For example, several favourable references were made to Van Agt's proposal at Luxembourg which envisaged a refund of 1,000 MUA in the years 1980, 1981 and 1982, and 800 in 1983 and 1984. One reason for this interest is, no doubt, the German desire to have a solution which is manifestly different from the one withdrawn by Schmidt. Another is probably the anxieties that Giscard has aroused by suggesting that net benefits as well as net contributions be subjected to review. A refund formula might be less of a precedent.

3. Clearly we are not in principle at all attracted by a solution which relates to the size of the refund.

/We should do nothing

We should do nothing to jeopardise our chances of getting a formula related directly to our net contribution and I am not suggesting that we should relinquish our efforts to induce the Presidency to make a compromise proposal in these terms. But it is possible that a strong movement may develop in favour of a formula related to the size of the refund. If so, we shall have to decide whether it would be better to seek to adapt such an approach to meet our essential requirements or to reject it out of hand. Certainly we would wish to present any such formula in the UK as the means of arriving at an acceptable net contribution by the United Kingdom. The fact that the formula itself would be relat~~ed~~ to the refund would not preclude such a presentation at home provided, of course, that the effect on our net contribution were sufficient.

4. A possible way of adapting a refund formula would be to index it to the growth of the Community Budget - ie the same index as you proposed at Luxembourg for the increase in our net contribution (Formula No 2 on the list that we discussed this morning). Assuming that we get a refund for about 1,350 in 1980, the effect of such a formula would be very favourable as is shown below:-

	1980	1981 lower	1981 higher	(1982)	Total refund
Unadjusted net contribution	1,900	2,240	2,320	2,472	-
Refund indexed to growth of budget	1,362	1,580	1,640	1,920	4,862 or 4922
Net Contribution	538	660	680	552	-

/5. You may feel,

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5. You may feel, in the light of what I have said above, that it would be unnecessary for the Foreign Secretary to refuse altogether to consider a refund formula if he ran into total resistance to a net contribution formula at tomorrow's Foreign Affairs Council. Of course, there are a number of pitfalls that we should have to avoid - and which we should need to consider carefully before going firm on this approach: I have particularly in mind, for example, the risk that our unadjusted net contribution will turn out to be substantially hgier than 1,900 MUA in 1980. But a willingness to negotiate a refund basis might, in certain circumstances, create an opening towards a negotiated settlement.

6. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Minister of Agriculture and Sir Robert Armstrong.

Martin Hall

GEOFFREY HOWE
(Approved by the Chancellor of the Exchequer and signed in his absence)
28 May 1980

Secret

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

Chancellor

European Budget

Variant of Scheme 7 : refund indexed in line with growth of community budget.

	80	80 L	81 H	82 MUEA
(1) Unadjusted net contrib	1900	2240	2320	2472
(2) Refund	1300	1534	1586	1836
(1)-(2) Net contrib. after refund	600	706	734	616

RT
28/5

Prime Minister SECRET. Seen 4 ie 1M. AWL. cc European Policy PES CAP 12A

MR. WHITMORE

COMMUNITY BUDGET

The Prime Minister may find it helpful before the meeting tomorrow morning to have set out the issues which will need to be decided both for the meeting with Signor Colombo and the Agriculture and Foreign Affairs Councils later this week. This is of course being written without knowing the outcome of the Ecofin Council, on which the Chancellor of the Exchequer will no doubt report, or the Lord Privy Seal's visit to Bonn to see Herr von Dohnanyi.

On the budget issue itself I attach a note (the figures in which have been agreed at official level with the Treasury) summarising the latest Commission estimates and considering various possible formulae for fixing our net contribution for the three years 1980, 1981, and 1982. Subject to the outcome of the Ecofin Council, the position can be summarised as follows. The last offer the Prime Minister made at Luxembourg would, on these figures, have yielded us about 4700 meua over the three years; but this was not accepted by the others. The Giscard/Schmidt offer, which we did not accept and which has of course now been withdrawn, only covered two years. Even if it had been extended to three years, it would only have yielded about 4000 meua and have left us making too high a contribution in 1982. Against this background, I suggest that our aim should be to secure a three-year arrangement; one which does not produce too steep a rise in our net contribution; and which yields something closer to the top of this range, say 4500 meua. We should also, I suggest, still aim for a limit on our net contribution rather than a fixed refund since this would be a safeguard against a steeper rise in agriculture expenditure than the Commission's new estimates have allowed for. The table contains several formulations which would satisfy these criteria, but they do suggest that in order to be negotiable, the net contribution for 1980 will have to be somewhat higher than 538 meua. The Prime Minister will want to consider whether it would be in

/our interests

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our interests to pay a bit more in the first year if we can thereby improve our position in the later years and avoid too sharp an increase in our net contribution. The table also contains a suggestion which Mr. Jenkins made at the end of last week which as formulated would not be acceptable.

There will be considerable difficulty in getting a precise figure agreed for 1982 because of the uncertainty over how much room there is likely to be within the 1 per cent VAT ceiling. It is clearly not in our interest to call the VAT ceiling into question. On the other hand, we do not want to accept too little relief on our net budget contribution now simply because, on the Commission's very uncertain forecasts, the Community would otherwise exceed the 1 per cent limit. There will in any case have to be a major review of the Community's finances some time during the next eighteen months. For these reasons it might suit our interests better to have a formulation under which the Commission had to propose the figure for the third year taking account of the outcome of any general review of the financial arrangements but with a commitment that, in the absence of any more comprehensive solution, the UK net contribution in 1982 would be limited in the same way as the figure for 1981.

As regards the CAP price issue, the Minister of Agriculture has now sent a warning letter to Commissioner Gundelach about the possible French national measures to aid their farmers, along the lines the Prime Minister agreed last week. We can expect other member states at the Agriculture Council to express concern at the intention of the French Government to take measures of doubtful legality. The more they make the running on this the better for us. The best outcome of the Agriculture Council for us would be a prolongation of the existing farm price arrangements, with out acceptance of the Luxembourg 5 per cent price increase remaining dependent on a satisfactory outcome on the budget. Ministers will need to consider later what our position would be if, in the event, the French Government decide to implement such measures without the approval of the Commission.

/On fisheries

On fisheries, there is discussion in COREPER today on a possible text dealing with principles, and the Minister of Agriculture may be able to report the outcome. In the bilateral talks with the Germans, the Minister of Agriculture suggested that we might be able to agree to the following text on access:-

> "The decisions to be taken under Article 103 of the Treaty of Accession must be in accordance with the objectives and principles of the Treaty of Rome and the Treaty of Accession (inter alia the objectives underlying Articles 100-102) and with the decisions of the Council of Ministers of 3 November, 1976 (inter alia Annex VII)."

This will not satisfy the Germans who want some recognition of the commitment to equal conditions of access at any rate outside 12 miles. The phrase "equal conditions of access" appears in Article 2 of the basic fisheries regulation which was codified and agreed to by the last Government in 1976. There are of course possibilities to derogate from this principle under the provisions of the Accession Treaty and the Hague agreements of 1976 and it is on these that our case rests. In his paper of 9 May the Minister of Agriculture suggested that, in the context of an otherwise satisfactory deal, we could accept the following:-

> "Equal conditions of access, subject to the need to take account of the vital needs of local communities specially dependent upon fishing and the industries allied thereto, and of the necessity of adopting without delay provisions to solve the problems of coastal fishing activity, in particular in economically disadvantaged regions, and to regulate fishing activity within a coastal belt."

On sheepmeat the Foreign and Commonwealth Secretary minuted the Prime Minister on 21 May reporting the conclusions of OD(E). The Prime Minister will want to consider, particularly in the

/light of

light of further exchanges between the Commission and Mr. Talboys, whether the proposals in that minute provide a reasonable negotiating basis for the Agriculture Council which Mr. Walker will be attending later in the day.

Finally, the Prime Minister will want to consider how best to tackle Signor Colombo, who will arrive fresh from talks in Bonn and Paris. He will be pressing us for ways to resolve fisheries and sheepmeat. We shall want to press him on the budget issue. The key question is whether, without mentioning figures, the Prime Minister should hint that if we could get satisfaction on the later years she might be prepared to go slightly higher than 538 meua for 1980.

I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and to the Minister of Agriculture's Private Secretaries.

M.D.M. FRANKLIN

Cabinet Office
27 May 1980

LATEST BUDGET FIGURES

The Commission have now produced estimates for discussion at the Ecofin Council of the total size of the Community Budget in 1981 and 1982, with variants depending mainly on whether agriculture expenditure increases by 12 per cent or 18 per cent per annum.

All these estimates show total expenditure as below the 1 per cent VAT ceiling and they leave room for a refund to the United Kingdom of not less than 1500 meua (higher estimate) for 1981 but virtually no room for any refund in 1982 on the more pessimistic assumption (2150 meua on the more optimistic one).

They have also produced revised estimates of the UK's unadjusted net contribution in 1980 and 1981, but not for 1982. The Treasury's own estimates for the earlier years are as follows (meua):-

1980	1981
2027	2352

In the attached table,
Line 1 puts our unadjusted net contribution for 1980 at 1900 million EUA. In fact, the Commission is still using 1784 million EUA, but they acknowledge that without negative MCA's our net contribution will be higher. The Lower and Higher figures for 1981 are straight Commission estimates, the former based on 12 per cent growth in CAP expenditure between 1980 and 1981, the latter on 18 per cent. The single figure of 2472 m EUA for 1982 represents the Treasury's estimate of the highest United Kingdom net contribution which is consistent with the Community's remaining within the 1 per cent ceiling. The Commission have offered no forecasts of the net positions of member states in 1982.

Line 2 is the proposal the Prime Minister made in Luxembourg, i.e. 538 million EUA for 1980 increased in future years by the same percentage as the increase in the Community Budget.

/Line 3

Line 3 is the same formula but starting from 600 million EUA in 1980.

Line 4 is the alternative formulation approved by the Prime Minister (but starting from 600 million EUA) whereby our unadjusted net contribution is reduced by the same percentage in the following 2 years.

Line 5 shows that on this method, we could still end up with the same figure for 1982 as in line 3, even if we were to accept 650 million EUA for 1980.

Line 6. This is a variant of line 4 produced by the Treasury under which we pay 600 million EUA net in 1980 but the refund in future years is calculated as though we had paid only 538 million EUA in 1980; i.e. it is 72 per cent of the unadjusted net contribution rather than 68 per cent. It produces an even more favourable result to us than the Prime Minister's last offer in Luxembourg.

Line 7. This is the only formula based on a refund instead of a limit on our net contribution. The idea is that we should get a financial envelope covering the whole three year period distributed so as to give an even rate of increase from a refund of 1300 million EUA in 1980. It builds on suggestions made by the Dutch at the Luxembourg European Council.

Line 8. This formula was suggested by President Jenkins to the Lord Privy Seal on 22 May. The figure for 1980 is 538 increased by the 9 per cent increase in the Budget between 1979 and 1980. We do not know exactly how he would calculate the figure for future years but the table assumes it would be by the same percentage increase as the total Community Budget to which is added half the year-on-year increase in the unadjusted net contribution. This formula has the effect of loading on to us most of the risk of increase in our net contribution arising from an increase in the Community Budget.

27 May 1980

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ALTERNATIVE FORMULAE

	1980	1981 Lower	1981 Higher	(1982)	meua Total Refund*
1. Unadjusted net contribution (using latest Commission estimates)	1900	2240	2320	2472	n.a.
2. Our proposal in Luxembourg (same % increase as budget in 1981 and 1982)	538	623	647	760	
Implied Refund	1362	1617	1673	1712	4719
3. As for (2) but 600 in 1980	600	695	721	846	
Implied Refund	1300	1545	1599	1626	4498
4. 600 for 1980 and same percentage reduction in 1981 and 1982 (68.4%)	600	708	733	781	
Implied refund	1300	1532	1587	1691	4551
5. As for (4) but 650 in 1980 (65.8%)	650	766	793	845	
Implied refund	1250	1474	1527	1627	4378
6. 600 for 1980 with higher percentage reduction in 1981 and 1982 (72%)	600	627	650	692	
Implied Refund	1300	1613	1670	1780	4721
7. Refund 4500 meua envelope	1300	1500	1500	1700	4500
Implied net contribution	600	740	820	772	
8. "Jenkins" formula : same % increase as budget plus half the change in our unadjusted contribution	586	849	915	1151	
Implied Refund	1314	1391	1405	1321	4033

*Taking the average of the two 1981 figures shown.

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10 DOWNING STREET

From the Private Secretary

27 May 1980

European Community Budget: Additional Twelfths for FEOGA

The Prime Minister has seen the Financial Secretary's letter of 14 May to the Foreign and Commonwealth Secretary on this subject together with the associated correspondence. The Prime Minister has agreed that we should not oppose additional twelfths sufficient to cover agricultural guarantee expenditure until the end of June. If additional twelfths prove necessary, she would not wish in the last resort to withhold agreement to this also, provided that it is clearly understood that in no circumstances will we agree to go beyond a cumulative total of 12 twelfths or to the transfer of any money between one section of the budget and another.

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

S. A. J. Locke, Esq.,
H.M. Treasury.

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NBIM.

RECORD OF A MEETING WITH THE BELGIAN FINANCE MINISTER, HELD IN THE BELGIAN DELEGATION OFFICE, CHARLEMAGNE BUILDING, BRUSSELS: 12.00 NOON, TUESDAY 27 MAY 1980

Present:

Chancellor of the Exchequer
Sir Michael Butler
Mr M A Hall

Monsieur Henrion, Belgian Finance Minister
HE Mr P Noterdaeme Belgian Permanent Representative to the European Communities

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The Chancellor of the Exchequer said he had called to make the acquaintance of M. Henrion, and welcomed him as a colleague. He recalled that Monsieur Geens had been host at the first Finance Ministers' Council which he had attended. Today however the Council would be pre-occupied with the search for a solution to the problem of the United Kingdom's net contribution to the EC Budget. A speedy resolution was necessary both in our own national interests and those of the Community as a whole. No one wanted discussions to be long and drawn out. The British Government was pleased that the European Council in Luxembourg had brought this matter closer to a solution. We wanted to find a solution which would last as long as the problem itself, and which would prevent a recurrence of the present unacceptable situation. It was particularly encouraging that the Luxembourg Council had concentrated on trying to find a formula for our net contribution. It was a

significant concession on our part to reduce the duration of any solution from 6 to 3 years, provided that such a short arrangement provided adequate safeguards against a recurrence of an 'unacceptable situation'. He hoped that the Finance Council in the afternoon would agree on the Commission's latest figures as the basis for the search for a solution, which would in its turn clear the way for progress elsewhere in the Community's affairs. The European credentials of the British Government remained strong, and they attached great importance to their continuing membership of the EEC.

2. Monsieur Henrion said he had been briefed on the results of the Luxembourg Council. He noted that the UK had not accepted the offer made at Luxembourg. This led him to ask himself two questions. First, was it necessary to find a solution of longer duration than that proposed at Luxembourg? And second, what was the specific contribution which Finance Ministers could make to finding a solution?

3. The Chancellor said there had been no consensus at Luxembourg on duration. The British Government had sought arrangements lasting 6 years in order to bridge the period during which a General Election would have to be held. It was essential to avoid another Election with Community membership as the main issue. It was necessary for us to have a settlement lasting not less than 3 years, with 'dynamization' in the context of a growing Community Budget.

4. Monsieur Henrion said that as Belgian Finance Minister he was most concerned about his domestic budget. Although he was a professional economist he had no faith in economic forecasts. He shared the gloom of his EC Finance Minister colleagues about the prospects for the European and world economies. He fully understood however our wish for a "mécanisme protecteur "[it was quite clear from the discussion that by this he meant a review clause after 3 years, and nothing more].

5. The Chancellor said he was no more optimistic than Monsieur Henrion about world economic prospects. Our own position was particularly sombre. The recession in the UK would be deeper than elsewhere, because our inflation problem was more serious. Monetary discipline had to be re-imposed, and there had been large cuts in public expenditure. Our net contribution to the EC Budget - which was much larger than our total development aid programme - had to be seen against that background. A substantial correction was imperative. Monsieur Henrion said he admired the Chancellor's courageous efforts to cut public expenditure. Belgium was a small country; and he was very worried about her substantial budgetary deficit of BF300 milliard. Public indebtedness was considerable.The number of fonctionnaires was grotesque, and he shared the Chancellor's objective of cutting the size of the public service. Despite the problems he himself faced, however, Monsieur Henrion assured the Chancellor that he could count upon his 'bonne volonté' in seeking a solution to our budgetary problem. The Chancellor commented that all the European

countries were in the same boat, but that the British boat was at the moment deeper in the water.

6. Mr Noterdaeme said that the tables circulated by the Commission raised two intellectual difficulties: first, there was clearly headroom in 1980, and probably still in 1981, for a solution to the British problem to be found within the total own resources available. But the Commission figures for 1982 were very pessimistic. How could this difficulty be overcome? Second, it was clear from the Commission's figures that so long as the Community continued to pursue costly agricultural policies, and the 1% own resources ceiling remained, it would be impossible to restructure the Budget effectively to accommodate other Community policies. All the Member States knew that the continuing increase in agricultural expenditure had to be curbed. But it was difficult to specify or quantify the kind of curbs which could be imposed. How did the Chancellor think the Finance Minister's political commitment to control agricultural spending could be pursued?

7. Commenting on the Ambassador's points, the Chancellor said that we did not accept that the problem of the UK's net contribution should be seen as the residual in the Community's finances, ie the shortage of own resources in 1982 should not be assumed to bite on us first. In any case, if the growth in agricultural expenditure could be held at moderate levels, there was room within the own resources ceiling for a solution to our difficulties even in 1982. All the Ambassador had said led him to the conclusion that agricultural spending was at the root of the present difficulties.

It was impossible for a British Government struggling domestically to curb public expenditure to allow massive outlays on EC agricultural subsidies. Any solution must include stopping the endless rise in agricultural prices which continued to encourage large surpluses which then had to be subsidised. Sir Michael Butler observed that even the Commission's lower assumption of 12% annual growth in agricultural expenditure was beyond the rate of growth of own resources. If agricultural expenditure could be held at a constant real level, there would in fact be some breathing space in 1982.

8. Both Ministers said they looked forward to further contacts in the future. [Monsieur Henrion understood English well, but preferred to speak French].

MMA

M A HALL
29 May 1980

Distribution

Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Sir Anthony Rawlinson
Mr Ryrie
Mr Hancock
Mr Britton
Mr Lovell
Mrs Hedley-Miller
Mr Michell
Mr Ashford
Mr Ridley
PS/Prime Minister
PS/Foreign Secretary
PS/Minister of Agriculture
PS/Sir Robert Armstrong
HM Ambassador Brussels
Sir Michael Butler

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COMMUNITY BUDGET: COMMISSION WORK ON SOLUTIONS

1. THE COMMISSION HELD A FURTHER DISCUSSION THIS MORNING ON THE UK BUDGET PROBLEM. THE UPSHOT WAS THAT THE SECRETARIAT GENERAL HAS BEEN ASKED TO WRITE A PAPER SETTING OUT ALTERNATIVE IDEAS FOR THE DIFFERENT ELEMENTS IN A NEW COMPROMISE SOLUTION TO THE UK BUDGET PROBLEM. THE COMMISSION WILL MEET AGAIN ON TUESDAY EVENING AFTER THE ECOFIN COUNCIL TO DISCUSS THESE IDEAS. THE INTENTION IS NOT TO AGREE A PAPER OR TO CIRCULATE A PROPOSAL TO MEMBER STATES IMMEDIATELY: BUT RATHER TO DEFINE A RANGE OF POSSIBILITIES ON WHICH ROY JENKINS MIGHT DRAW AT THURSDAY'S FOREIGN AFFAIRS COUNCIL. THE COMMISSION WOULD BE IN TOUCH WITH THE PRESIDENCY ON WEDNESDAY MORNING TO GIVE WARNING OF THEIR INTENTIONS.

2. THE MAIN PARTICIPANTS IN THE DISCUSSION WERE ROY JENKINS AND ORTOLI. JENKINS OPENED BY SAYING (WITHOUT GIVING ANY EVIDENCE) THAT HE DETECTED SOME LIGHTENING IN THE POST-LUXEMBOURG GLOOM. HE ARGUED THAT ANY COMPROMISE SOLUTION SHOULD START OUT FROM THE FINAL STAGES OF THE LUXEMBOURG DISCUSSION. THE REFUND TO THE UK SHOULD BE SOMEWHAT LOWER IN 1980, GIVEN GERMAN BUDGETARY PREOCCUPATION, BUT THE SOLUTION FOR 1981 AND 1982 SHOULD BE DYNAMISED. HE THEN OUTLINED AN ARRANGEMENT UNDER WHICH THE UK NET CONTRIBUTION IN 1980 WOULD BE FIXED AT A SOMEWHAT HIGHER LEVEL THAN 538 MEUA. THE NET

FIXED AT A SOMEWHAT HIGHER LEVEL THAN 538 MEUA. THE NET CONTRIBUTION OR THE REFUND FOR LATER YEARS WOULD BE CALCULATED BY APPLYING ONE OF A VARIETY OF RISK-SPLITTING FORMULAE.

3. ORTOLI PREFERRED A SYSTEM BASED ON FIXING A REFUND RATHER THAN THE NET CONTRIBUTION IN 1980, BUT APPEARED TO ACCEPT THAT THERE SHOULD BE SOME ELEMENT OF PROGRESSIVITY IN CALCULATING THE REFUND FOR 1981. HE ALSO ARGUED AGAINST FIXING A SPECIFIC FIGURE OR FORMULA FOR 1982. INSTEAD IT SHOULD BE AGREED SIMPLY THAT THE COMMISSION SHOULD COME FORWARD WITH A PROPOSAL FOR 1982 IN THE COURSE OF 1981.

4. THE FINAL ELEMENT IN THE DISCUSSION CONCERNED THE REVIEW CLAUSE. ROY JENKINS SUGGESTED THAT THE COMMISSION SHOULD SEEK A MANDATE TO STUDY BOTH THE OWN RESOURCES SYSTEM AND THE DEVELOPMENT OF COMMUNITY EXPENDITURE POLICIES AND TO MAKE PROPOSALS DURING THE COURSE OF 1981. ORTOLI ACCEPTED THIS, BUT ARGUED THAT THE REMIT SHOULD BE PHRASED IN MORE GENERAL TERMS AND THAT THE COMMISSION SHOULD SIMULTANEOUSLY MAKE ITS PROPOSALS (AS IN PARAGRAPH 3 ABOVE) ON THE REFUND FOR THE UK IN 1982.

5. TWO OTHER POINTS EMERGED IN THE DISCUSSION. FIRST, IT WAS AGREED THAT THE COMMISSION WOULD SEEK TO ''STOP THE CLOCK'' ON THE AGRICULTURAL PRICE NEGOTIATIONS. SECOND, ORTOLI ARGUED THAT THERE MUST BE SOME UNDERSTANDING THAT THE UK WOULD NOT MAKE DIFFICULTIES ABOUT THE 1981 LAST WORD UNDERLINED AGRICULTURAL PRICE SETTLEMENT. (WE HAVE HAD INDEPENDENT CONFIRMATION FROM THE COUNCIL SECRETARIAT THAT FRENCH SOURCES IN PARIS ARE BEGINNING TO EXPRESS CONCERN ABOUT THE 1981 PRICE SETTLEMENT.) WE HAVE TOLD OUR CONTACT THAT WE REGARD THIS IDEA AS ABSURD.

6. OTHER MEMBERS OF THE COMMISSION INTERVENED VERY LITTLE IN THE DISCUSSION. SURPRISINGLY, THERE WAS NO CRITICISM OF THE IDEA THAT THE OWN RESOURCES SYSTEM SHOULD BE STUDIED. IT WAS LEFT THAT THE SECRETARIAT GENERAL WOULD PRODUCE A PAPER SETTING OUT THE OPTIONS ON THE POINTS UNDER DISCUSSION.

7. OTHER SNIPPETS OF INFORMATION. LAHNSTEIN, NOT MATTHOEFFER, WILL REPRESENT GERMANY AT THE FINANCE COUNCIL. THE COUNCIL SECRETARIAT HAS BEEN TOLD THAT MONORY WILL NOT REPEAT NOT BE PREPARED TO ENGAGE IN SUBSTANTIVE NEGOTIATION O N TUESDAY.

FCO ADVANCE COPY TO RECIPIENTS ONLY
FCO - RESIDENT DUTY CLERK - PLEASE PASS TO CHANCELLOR'S PRIVATE SECRETARY DURING WEEKEND.
FCO - BRIDGES, HANNAY, SPRECKLY

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FCO - BRIDGES, HANNAY, SPRECKLY

CAB - FRANKLIN, ELLIOTT, WALSH

TSY - PS/CHANCELLOR, SIR K COUZENS, HANCOCK, MICHELL, THOMPSON (MRS WRIGHT + 7 COPIES)

NO 10 - ALEXANDER

Copy sent HSM To TSY. - AM 24th.

BUTLER

NNNN

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cc HMT
MAFF
CO

12

10 DOWNING STREET

Top copy on Euro Pol Pt 5 CAP.

From the Private Secretary

22 May 1980

Dear Paul,

European Community

The Prime Minister held a meeting earlier this afternoon to discuss the present state of play on the various negotiations at present in train with the other members of the Community. The meeting was attended by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture and Mr. Franklin.

Sheepmeat

It was agreed that this was the right time for the New Zealand Government to press their case with the European Commission. Mr. Walker had already made this point to Mr. Talboys. The New Zealand Government should be seeking assurances on, e.g., tariff and quota levels. The Prime Minister said that any Community sheepmeat regime would have to be acceptable to New Zealand. But it was noted that there might well be more than one way to safeguard the interests of New Zealand and that New Zealand's first preference was not necessarily the only one which would be acceptable to the New Zealand authorities.

Fisheries

Mr. Walker said that recent developments had been relatively encouraging. It had been agreed that there would be no meeting of the Fisheries Council at the end of this month. Anglo-German discussions of the guidelines text for the negotiations on a Common Fisheries Policy had made some headway.

National Aids

It was agreed that Mr. Walker should write as soon as possible to Mr. Gundelach expressing H.M.G.'s concern about reports of the French Government's intention to introduce national aids in the absence of an agreement on agricultural prices at next week's Agricultural Council. Before the letter was sent, the Law Officers and F.C.O. legal advisers were to be consulted about the legality of the French Government's actions - insofar as we had precise information about these.

/ It was

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GB

It was agreed that all the evidence suggested the French Government were determined to act at the end of the month and that they were not merely indulging in brinkmanship. Against that background, careful thought would need to be given to the situation which would arise after 31 May if the French had introduced national aids and if these were clearly illegal. A Working Group should be set up at once to review the possibilities. The sort of questions which would have to be considered, either by the Group or separately, would include:

- how best to demonstrate the seriousness of our own threat to withhold VAT;
- what to do about French imports of nationally subsidised products after the end of the month;

  and
- whether or not to try to withhold agreement on the provision of additional twelfths for FEOGA.

ECO/FIN Council

It was agreed that the meeting of ECO/FIN early next week should be treated as an exercise in damage limitation. The object would be to prevent any slippage, e.g. in the direction of a discussion of rebates, rather than of the ceiling on the UK's net contribution. The more that could be found out about the intentions of other members, and in particular the Germans, the better. No flexibility could be indicated on the Luxembourg figure of 538 meua as the UK contribution for 1980. A solution covering three years was essential.

Budget Contribution

It was agreed that, given the German concern about the 1980 figure, an effort should be made to identify a formula which would be more beneficial to the UK in the second or third year and less beneficial in 1980 than those previously discussed. Whether or not such a formula produced a firm figure for the third year (it was noted that a firm figure might give rise to difficulties in the context of the one per cent VAT ceiling) any formula should enable a third year figure to be quantified if necessary. If the approach of an "envelope" for three years was to be adopted, the total figure would have to be a large one. The Prime Minister mentioned 5,000 meua.

Foreign Affairs Council

It was agreed that the UK should support the holding of a Foreign Affairs Council at the end of next week.

/Next Meeting

Next Meeting

It was agreed that the same group of Ministers would meet again on Wednesday, 28 May at 9.30 p.m. to hear a report from the Chancellor of the Exchequer on the outcome of ECO/FIN and to discuss the line which the Minister of Agriculture would take at the Agriculture Council and the Foreign and Commonwealth Secretary at the Foreign Affairs Council.

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

Yours ever

Michael Alexander

Paul Lever, Esq.,
Foreign and Commonwealth Office.

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

(2)

21 May 1980

Dear Michael,

The Community and British Coal

The Prime Minister enquired about the validity of Chancellor Schmidt's claim in the course of a discussion at Chequers on 28 March that under the terms of the Treaty of Paris, all British coal was Community coal just as all German or French coal belonged to the Community.

Chancellor Schmidt's statement does not accord with the legal position or the facts.

The Treaty of Paris does not in any way compromise our "ownership" of our own coal. There is nothing in the Treaties that makes coal a Community resource.

The Treaty of Paris does limit actions by member states on coal in some respects, essentially in order to assure the operation of a relatively free market for coal (its provisions are broadly parallel to the free market provisions in the Treaty of Rome). The Treaty bans state aids, subsidies and restrictive practices tending to collusive sharing or exploitation of markets. It also provides for Community action over a wide field of activity in the coal industry, including investment in the coal industry, production, wages and movement of labour, transport charges and commercial relations with third countries. Member states however remain free to decide the rate at which they exploit their coal reserves and to whom they sell their coal mined within their territories.

The attached note sets out the background in greater detail.

Copies of this letter go to Bill Burroughs (Dept of Energy), Garth Waters (MAFF) and David Wright (Cabinet Office).

Yours ever

Paul

(P Lever)
Private Secretary

M O' D B Alexander Esq
10 Downing Street
LONDON

THE COMMUNITY AND BRITISH COAL

1. This note sets out some of the background to Chancellor Schmidt's comment that "British coal is Community coal".

Scope of the ECSC

2. The aims of the European Coal and Steel Community, as set out in the Treaty of Paris which established it in 1951, are to promote economic expansion, growth of employment, a rising standard of living and the most rational distribution of production at the highest possible level of productivity, while safeguarding continuity of employment and avoiding the creation of deep and lasting disturbances in Member States' economies. To attain these ends, the Treaty provides for the abolition of:-

(a) important export duties and quantitative restrictions (or charges having the same effect) on trade in coal and steel between Member States;

(b) discrimination by producers in prices, delivery terms or transport rates, and any measures which hamper the buyer in the free choice of supplier;

(c) State aids, subsidies or special charges;

(d) restrictive practices tending towards the collusive sharing or exploitation of markets.

The Treaty also provides for action by the Community over a wide field of activity in the coal indsutry, including investment, production, wages and movement of labour, transport charges and commercial relations with non-Member countries.

3. The main principles on coal pricing enshrined in the Treaty is that coal producers should compete on an equal basis. The Treaty forbids subsidies unless they are provided by the ECSC itself. In practice coal producers have been largely unable to fulfil the expectations of viability that underlay the drafting of the Treaty and Governments have been obliged to grant aid to their coal industries. Conflict with the Treaty provisions has been avoided by state subsidies being allowed as long as they are authorised by the Commission and thereby adopted as Community subsidies (this device is considered suspect by the UK Law Officers but we have not objected to it since that could make it difficult for us to pay aid to the National Coal Board).When approving subsidies the Commission has to certify that they meet the criteria laid down in the relevant Council Decision. Prices are fixed by the coal producers but have to be published so as to promote transparency. Transport charges also have to be published or notified to the Commission. The latter has powers, which it uses, to audit producers' accounts to check that prices actually charged are fair.

4. In this way the Treaty of Paris provides for a special relationship between coal producers and the Commission. It also provides that producers, workers, consumers and dealers and their associations may present any suggestions to the Commission on questions affecting them. The Commission

/itself

itself also consults Governments and the other parties concerned. The Commission conducts both short and longer term reviews on forward programmes for coal.

The German interest in Coal

5. We are not clear as to Chancellor Schmidt's motives in drawing this parallel with coal. Although we ourselves have been trying to press in the Community the idea that Britain's very large coal reserves are an asset for the Community, the Germans have shown little interest. If there is a change of heart, we would want to build on it to attempt to obtain more EC funds for the UK.

6. Although British coal production costs are below German levels, the addition of port and freight charges makes our list prices generally unattractive to Continental buyers. This is particularly so in the case of coking coal and the qualities that overseas buyers want are chiefly the scarce ones that are readily acceptable to BSC. Nevertheless, there has been some marginal export of steam coal (much of it at a substantial discount) mainly to French and German power stations, and this is still continuing though at a low level.

7. There is some desire on the part of the German and other Continental buyers to maintain modest supplies from the UK, chiefly for security of supply reasons, and the buyers are willing to pay small premia for this - though not our full list prices. That would no doubt change (as it did in 1974) if a severe world shortage were to develop, though this seems unlikely at present. Indeed, Chancellor Schmidt has suggested on earlier occasions that UK coal might be made available to other member states on equal terms as to our own consumers if a crisis did develop. We are looking into the possibilities but the Department of Energy's initial view is that there would be considerable difficulties.

8. There is one further context in which Chancellor Schmidt's comment may have been made. In Germany, there is an arrangement, part statutory, part contractual, whereby the electricity producers have agreed to take 33 million tonnes a year of German coal (now to be increased by 1 million tonnes year by year to 45 million tonnes) with subsidies which are financed through a statutory levy on electricity consumption and which make the German coal competitive with oil and third country coal. We have had official assurances that these subsidies are available in respect of any "Community coal" used by power stations. In practice, however, the German power stations have seemed reluctant to claim the subsidy on British coal and, though there are no grounds on which we could challenge it, the rather complex system works in such a way as to favour consumption of German coal. Consequently, we have to accept that if the National Coal Board are to secure sales, they have to sell at a substantial discount. As traditional supplies to several of the German power stations, they have good relations with them and have managed to maintain a modest trade - though one which has had to fluctuate in recent years according to availability and relative world prices.

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

From the Minister

CONFIDENTIAL

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

21 May 1980

EUROPEAN COMMUNITY BUDGET: ADDITIONAL TWELFTHS FOR FEOGA

Thank you for the copy of your letter of 14 May to Peter Carrington. I appreciate the reasons which have led you to suggest that we should try to ensure that at this stage only sufficient funds are made available to cover June FEOGA advances.

2. This course does involve some risk of delays in payments of export refunds by intervention authorities. If traders began to have fears about the availability of FEOGA money for exports they might be inclined to make more sales into intervention which is, of course, financed by national funds. We shall be watching this carefully but there is no obvious change in trading patterns so far.

3. The reactions of agricultural officials from other Member States at last week's meeting of the FEOGA Committee in Brussels suggest that no other Member will try to restrict the additional funds to what is needed for the June advances only. If any other Members are willing to argue for this restriction I agree that we should join in but I doubt whether we should be justified in standing alone on this issue.

4. As regards transfers between Chapters however I agree that we could expect other Member States to support us in continuing to resist transfer and I am content with the line you propose on this.

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

PETER WALKER

Ref: A02227

Euro Pol

CONFIDENTIAL

PRIME MINISTER

Community Affairs

The Foreign and Commonwealth Secretary might be invited to report on the discussions at the informal Foreign Ministers' meeting in Naples on 17th-18th May. There was no progress on the amount of our budget contribution, but the need for any solution to extend to three years seems to have been more widely recognised. Under French pressure it was agreed that the Finance Council should meet on 27th May to consider revised Commission figures for 1981-82. The idea of holding a Foreign Affairs Council on 28th-29th May, in place of or in addition to the Council scheduled for 2nd-3rd June, was left open.

RTA

(Robert Armstrong)

21st May 1980

10 DOWNING STREET

Prime Minister.

This does not deal with what the Foreign Secretary's negotiating mandate would be next week. You will wish to discuss tomorrow.

My own feeling that there is no hope of the Foreign Minister having a serious negotiation unless you yourself have sent a signal – at least to Schmidt. This would be a message on the direct line or a meeting with Rubbers. I doubt whether you will get close to your target in the time scale dealt with this in minute unless inject something new into the discussion. I have already mentioned to you my own idea on that. Rwj

Econ Pol.

cc Econ Pol - CAP. A-5

10

SECRET

Discussed at meeting on 22.5.80

PM/80/40

PRIME MINISTER

Agreed 23/5

Community Budget

1. As you know the Naples meeting of Community Foreign Ministers last weekend made little or no progress towards a solution of the budget problem. The French and Germans continued to say that their Luxembourg offers are no longer available, the others had no constructive ideas to contribute and the Italian Presidency are noticeably flagging in their efforts to find a solution acceptable to all.

2. Next week there will be meetings of the Finance Council and the Agriculture Council. None of these meetings will be easy for us and none are likely to get us any closer to a solution. The Finance Council has not hitherto proved an effective negotiating forum on the budget and the presence of Matthoefer and Monory is hardly likely to be conducive to flexibility. The latest Commission figures the Finance Council will be considering, while they may help to reassure the Germans that there is room to solve our problem within the 1% ceiling in 1980 and 1981 will be less helpful for 1982; and they will show more clearly than before just how large a refund we need to bring our net contribution down to acceptable levels. In the Agriculture Council Peter Walker will have to maintain our reserve on the price package and to fight our corner on sheepmeat. On the latter his chances will to a large extent depend on whether there is a general feeling that a budget settlement is in the offing, in which case I think he has a reasonable chance of making progress.

3. Since Luxembourg the main factors at work are as follows. First the irritation of Schmidt and Giscard at the way things

/went

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went there has poisoned the atmosphere and impeded progress at a lower level; but at the same time their own proclaimed refusal to negotiate further at Venice, and thus to be seen personally to be making concessions, is to be taken seriously and makes the prospects for a solution if left to that meeting dubious to put it mildly. Second the realisation of how big the concessions we extracted at Luxembourg were has been borne in on all governments and has caused trouble with hard-pressed Finance Ministers. This has bred a strong feeling that any further concession on duration will have to be balanced by smaller refunds to us in 1980 and above all that any further concessions at all to us can only be made in the context of a decisive negotiating meeting, so that we cannot again refuse them and then carry on negotiating from there. Thirdly the problem of the agricultural price settlement, taken in conjunction with impending elections in Germany and France, has become more and more of a preoccupation to our partners, with the French demonstrating a clear intention to take national measures and others likely to follow suit with the connivance, and probably the approval, of the Commission.

4. Does this mean that time is on our side? I do not believe so. We can of course stand pat on the budget position as we put it at Luxembourg, use the Luxembourg Compromise to block agricultural prices and the 1980 (and the 1981) budget, and consider again the pros and cons of withholding. With or without the last point, the Community will then find itself in a major crisis, with much bitterness and an increasingly firm 8:1 line-up against us. A negotiated solution will eventually have to be found; but in the confusion created and with the French presidential election not until March 1981 that could take a considerable time. If, at the end of it, we were to get a substantially better deal on the budget than we can get now, that might not matter too much. But in my view that is not the case. The closer we get to the 1% ceiling the more difficult it will be to get the

/special

special arrangements for the UK we have been fighting for. And the longer the crisis goes on the greater the number of extraneous issues others will link to the concessions we want on the budget. To take fish as only one example (New Zealand butter is another), linkage with the substantive issues of access and quotas would be far more difficult for us to handle than the present argument over a list of carefully drafted principles.

5. But can we get an acceptable deal now, before Venice? I think we can, although obviously I cannot be sure. For one thing I believe we can capitalise on Giscard and Schmidt's evident unwillingness to get personally involved again. They and our other partners know that, if the matter is not settled before Venice, they cannot evade either another attempt to settle or the prospect of a major Community crisis. And, although I am convinced that domestic politics will mean that national measures on agriculture will be taken and that Community politics mean that the Commission will not throw the rule-book at those who take them, I am also sure that there is no Member State which does not regard a settlement on the basis of the price increases proposed in Luxembourg as an infinitely preferable alternative.

6. If you agree, I would like therefore now to signal firmly to the Italian Presidency and to the other Member States that we are prepared to participate in a decisive negotiation in the Foreign Affairs Council either at the end of next week or early the following one. I do not think we have anything to lose from doing this. Even if it fails to produce a solution we shall have improved our position tactically. The Community will in any case face a financial crisis at some point during the next eighteen months or so. I believe our chances of exploiting that situation to our advantage would be strengthened if we had succeeded in getting a budget deal, albeit for a limited period, and conversely would be jeopardised if we had not.

/I am

6. I am copying this minute to the Chancellor of the Exchequer, the Lord President of the Council, the Lord Privy Seal, the Minister of Agriculture and Sir R Armstrong in the Cabinet Office.

C

(CARRINGTON)

Foreign and Commonwealth Office

21 May 1980

9

Budget file
CAP A5

PM/80/41

PRIME MINISTER

Sheepmeat Regime

I did not put this into you since I knew that you would be concerned about the outcome of OA(E)

1. The Sub-Committee on European Questions of the Defence and Oversea Policy Committee discussed this morning the proposals in the Minister of Agriculture's letter to me of 20 May, which you have seen. We also considered the related letters of 19 and 20 May respectively from the Chancellor of the Exchequer and the Secretary of State for Scotland. Throughout our discussion we had very much in mind the need on the one hand to settle a sheepmeat regime as an indispensable element in a final solution to our budget problem and on the other the need to safeguard both our own interests as the largest lamb producers in the Community and the interests of New Zealand about which, with your agreement, the Minister of Agriculture has now written to Commissioner Gundelach. We also had to take account of the attitudes of the other member states, all of whom are likely to support the main features of the revised Commission proposals including the use of intervention. (I attach an annex in which these main features are set out.)

2. The Sub-Committee concluded that these conflicting objectives might best be reconciled if the Minister of Agriculture sought a contingent agreement on sheepmeat in the 28/29 May Agriculture Council on the following basis. First we should reluctantly accept that intervention in France is unavoidable, but we should strive to get the basic price for sheepmeat - which in turn determines the intervention price - down to as low a level as possible. Second we should propose a system of variable premia for the United Kingdom and Ireland instead of intervention. This would operate much like our present deficiency payment scheme, except that it would be wholly financed by the Community. When the United Kingdom market price fell below a target price (below the French

/intervention

intervention price by the approximate equivalent of the transport costs), the Community would pay a variable premium to the producer to make up the gap. This premium would be clawed back on export sales, so that there would be little or no incentive for British farmers to sell into intervention abroad.

3. If these objectives can be secured, the worst features of the Commission's proposals will have been removed so far as the United Kingdom is concerned. There would be no intervention in the United Kingdom. Lamb prices on the United Kingdom market will not be forced up to French levels, so that the consumer will be better off and demand will be sustained (thus helping access for New Zealand lamb). There will be no incentive to expand production solely for intervention although some increased exports are likely. We shall be getting support for our producers from Community funds, with an estimated reduction in our net contribution to the Community budget rising to £66 million a year.

4. If you agree with this line, I think it important that we should make our position known immediately to the Commission and the other member states with the aim of reaching agreement at next week's Agriculture Council, conditional of course on a solution to our budget problem.

5. I am copying this minute to the members of OD(E), to the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office
21 May 1980

ANNEX

MAIN FEATURES OF THE COMMISSION'S REVISED PROPOSAL

i. A basic price for sheepmeat should be set annually. For 1980 the Commission propose 345 ECU/100 kg (about the current French market price).

ii. An intervention price should be set at 85 per cent of the basic price (ie for France in 1980, 293 ECU/100 kg, but for the UK and Ireland alone a lower intervention price of 268 ECU/100 kg would be set).

iii. Reference prices should be fixed for five 'regions' within the Community (for France the Commission propose 345 ECU/100 kg, for the UK 265 ECU/100 kg).

iv. If the market price is below the reference price, a premium should be paid to the producer to make up the difference. The maximum premium payable is the difference between the reference and the intervention price.

v. As already agreed, third country suppliers of sheepmeat would be invited to agree to voluntary restraint on their exports to the Community in return for a tariff cut.

vi. There should be a review of the regime not later than 30 September 1983.

Ref: A02207

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Prime Minister
Agree not to intervene

MR. ALEXANDER

Will need short discussion out

25/5

European Community Budget: Additional Twelfths for FEOGA

The Prime Minister might like to have this note on the issues raised in the letter dated 14th May from the Financial Secretary, Treasury to the Foreign and Commonwealth Secretary.

2. The background is as follows. In the absence of an agreed Budget the Treaty of Rome limits Community expenditure each month under each section of the Budget to one-twelfth of the corresponding figures in either the approved Budget for 1979 or the draft Budget for 1980, whichever is the lower.

3. The same rules allow the Council, acting by a qualified majority, to authorise the expenditure of additional twelfths in any month. The Parliament, the Commission and we are agreed that this dispensation is subject to a cumulative maximum of 12 twelfths for the year as a whole. The Parliament and we also agree that transfers between sections of the Budget are not permissible. The Council has not taken a formal position on either of these points but has rejected individual proposals for transfers between sections of the Budget put forward by the Commission.

4. Current problems arise because the cost of the CAP is rising. So there is probably a need for additional "twelfths" for expenditure under the FEOGA guarantee section of the Budget to enable member states to meet their obligations to make payments to farmers through their intervention agencies in June and the succeeding months. The Commission have asked for additional "twelfths" sufficient to keep agricultural guarantees in funds until the end of August. They also propose some transfers within the FEOGA section of the Budget. The request is to be discussed in Brussels this week.

5. It would be open to us to seek to block this measure as a means of bringing further pressure to bear for an acceptable settlement of our budget problem. But the Financial Secretary's objections to this course are strong. The decision will be taken by majority voting, which is a well-established practice in the Budget context. The other member states will almost certainly

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support the Commission proposal. We could thus only seek to block it by invoking the Luxembourg compromise. But it would be difficult to sustain the argument that a vital United Kingdom interest was at stake and, if the other member states refused to accept the use of the Luxembourg compromise on this issue, our chances of deploying it successfully later to veto the Budget as a whole could be seriously weakened.

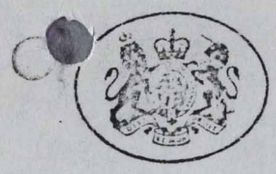
6. The Financial Secretary accordingly proposes that we should try to get agreement to additional twelfths sufficient to cover agricultural guarantee expenditure until the end of June only, leaving any requirements for later months to be dealt with separately as they emerge. He also proposes that we should continue to resist the Commission's proposals for transfers between sections of the Budget. He believes that this line, which would give the Commission a continuing incentive to contain expenditure, should attract the support of other member states as being consistent with an earlier Council decision affecting FEOGA payments for May. However, if this assessment proves to be wrong, it would follow from paragraph 5 that we should have to bow to the majority view.

7. If the Prime Minister is content with the Financial Secretary's proposed objectives, which are likely to be acceptable to the Foreign and Commonwealth Office and the Ministry of Agriculture, Fisheries and Food, there would seem to be no need for her to intervene in the correspondence.

(D. J. Wright)

20th May 1980

SECRET



From the Minister

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

8

Subject file - CAP
PAS

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

20 May 1980

SHEEPMEAT REGIME

1. You will have seen my note to the Prime Minister of 9 May in which I reported on the developments in the regulations on sheepmeat. I am writing to you as Chairman of OD(E) in the light of further official discussions in Brussels for authority to go firmly for a FEOGA financed variable premium in the UK in exchange for any concession on intervention.

2. The Commission has now tabled a revised formal proposal for a common organisation for sheepmeat, replacing the 1978 formal proposal (with its emphasis on a light, market-related regime) which has been the basis of discussion so far. The revised proposal incorporates the "compromise" put forward by the Commission in Luxembourg and therefore provides for intervention on the Continent at a price level (293 ECU/100 kg) which is above the Community weighted average market price and, if maintained in real terms, will, in our view, lead in the longer term to very substantial quantities of meat going into intervention. For the UK and Ireland the Commission propose an intervention price 25 ECU lower than on the Continent; this differential is roughly five times the additional cost of exporting to the Continent and it would effectively remove the likelihood of intervention here but would result in larger quantities of our meat being drawn into the higher-priced French market and in greater intervention in France.

SECRET

3. The fact that the proposal formally covers intervention only in the period July - December does not imply much restriction on intervention, since this is the main marketing period and there is also provision for intervention to be decided on at other times of the year if market conditions are difficult. Nor is there much hope from the proposal, adopted at working level in Brussels last week, to leave it open to Member States to request intervention when their price was below the requisite level, since, if France carried out intervention at the high level proposed, meat would be drawn in from other non-intervening Member States. If intervention were adopted, the price level would be vital in determining the extent of its use. It is therefore essential to have a lower intervention price. The Germans, Danes and Dutch are also worried about the price level, but they are under strong pressure to hold to the package agreed in Luxembourg and it will be very difficult to get a majority for a lower price.

4. Where premiums are concerned the Commission have repeated their earlier informal proposals, thus giving us a reference price which is unlikely to produce any significant premium receipts in the first year and which provides no mechanism or timescale for aligning reference prices to a common level.

5. The only encouraging feature of the proposal is that it includes no provision for export refunds and Mr Gundelach has said he does not intend to include them. However, when Commission officials were pressed about the possibility of export refunds being brought into use at a later stage their replies were ambiguous.

6. We are therefore faced with a package which offers nothing to any of our interests and would mean that, with no effective support mechanism for the United Kingdom, prices would be forced up by intervention on the Continent and consumption would go down; perfectly good lamb would be frozen, creating a disposal problem when there would be a strong but frustrated demand for fresh meat at reasonable prices. Our producers would lose their existing seasonalised guaranteed price. Even if export refunds are excluded, the New Zealanders are desperately worried about the trade implications of large-scale intervention. So there would be opposition by Parliament and public, producers and consumers. In my opinion a package on these lines is unacceptable in any circumstances.

7. It is clear that, as I have said, we cannot accept the price level for intervention. We must also make it clear that the proposed differential between our price and the Continental price is wholly unjustifiable; on this point (if no other) we shall have the support of the Irish. We shall continue to argue for a premium system that gives us a reasonable share of receipts from the start and moves rapidly to a common reference price and a common premium. We have to recognise, however, that at the next Council of Agriculture Ministers there is going to be an eight-to-one majority in favour of an intervention system and a premium system on the lines proposed by the Commission and a majority in favour of the intervention price they propose. We have, therefore, to consider how this unacceptable package could be made acceptable if it is essential to settle sheepmeat at or before the next European Council.

8. If we accept that we cannot avoid intervention taking place in France, the only possible means of offsetting the effects in the UK of a higher intervention price there while getting a reasonable level of support for our producers would be to operate a FEOGA financed variable premium in the UK based on a seasonalised target price at a level comparable with the seasonalised intervention price in France (after allowing for the geniune extra costs of exportation). Thus if the French intervention price were set at 293 ECU/100kg our target price would have to be 288 ECU/100kg. Under the alternative, in any week when the UK average market price was below the seasonalised target price a premium equal to the gap between the two prices would be paid. The return to the producer would be maintained without any adverse effect on consumption and, if the premium were recovered on export this would remove the risk of heavy exports building up French intervention stocks.

9. I therefore propose to negotiate for a variable premium on these lines. Provision for such an alternative was included in working proposals circulated by the Commission last year but operating at a much lower price level which would have virtually excluded premiums. It is essential for our purposes that a target price for variable premiums has the relationship to the Continental intervention price I have described above. It will be difficult to get agreement to this alternative, but several other Member States want to avoid heavy intervention (even the French profess a desire to keep it to a minimum) and they are all committed to 100% FEOGA funding of whatever measures are agreed. If we secure it, it is quite likely that Ireland will want a similar arrangement, but we cannot count on their support in negotiations.

10. Our latest estimate of the cost of the Commission's proposals is set out at Annex I and our estimate of the cost if the variable premium alternative were applied in the UK and Ireland is at Annex II. The long-term costs assume that the production and consumption response to changes in prices and support levels have fully worked through. This would take several years; we cannot say precisely how long. The cost of intervention and of variable premiums in the second year of a regime under the system I propose would probably not be significantly different from the first year. Costs would rise therafter as the production response became evident. The cost under the Commission's proposal would rise more steeply in the second year because the consumption response to the price effect of intervention would be relatively rapid.

11. A regime with variable premiums on the lines I have described should exert a greater discipline on the annual price fixing because the pressures for a higher intervention price would be balanced by a desire to keep down premium expenditure in the UK and Ireland. We have not allowed for this in the costing at Annex II. We should, of course, have to insist that the differential between intervention and premium support prices should not be widened.

12. In addition to the public expenditure considerations the variable premiums would produce savings on the balance of trade and on consumer expenditure. The lower consumer price is the UK would reduce the cost of New Zealand imports and the consequent saving in the balance of trade would outweigh the loss of exports to France compared with those under the Commission proposal.

13. If we were to get a regime with variable premiums on these lines it would neither be negotiable nor sensible to pay both compensatory premiums and variable premiums in this country. On the basis proposed by the Commission, the compensatory premium offers us little. Tactically I would propose to continue to press for the improvements we are seeking in compensatory premiums while recognising that these would become irrelevant if we got a variable premium.

14. The timing of an initiative on these lines requires careful consideration. We cannot rely on the Commission to present a satisfactory proposal on these lines, even though they might be prepared to consider a variable premium option of some kind if it would settle the package. In preparing for the next Agriculture Council we have to make it clear that the present proposals are not acceptable and that a different combination of premiums and intervention will be needed. I would like authority to put forward a specific variable premium proposal at the price level I have indicated (that is, 5 ECU below the Continental intervention price) at the Council if it becomes clear (as I think it will) that we cannot get an acceptable package on any other basis.

15. I am copying this to the Prime Minister and to members of OD(E).

Yours sincerely
Peter Walker

PETER WALKER

(Approved by the Minister
and signed in his absence)

ANNEX I

COMMISSION PROPOSALS(1)

Year One (current prices)

	MECU	£M
Compensatory Premia	108	70
Intervention costs(2)	45	29
Total EC Expenditure	153	99
UK Gross Contribution	28	18
UK Receipts	-	-
UK Net Contribution (Cost)	28	18

Long-term (at 1979 real prices)

Intervention Costs/EC Expenditure (3)	171	110
UK Gross Contribution	30	19
UK Receipts	-	-
UK Net Contribution (Cost)	30	19

NOTES:

(1) A support level of 293 ECU/100kg on the Continent and 268 ECU/100kg in the UK and Ireland. The support mechanism to be intervention only; no measures to alleviate trade distortions arising from different intervention levels.

(2) Includes initial national outlay on purchase costs.

(3) Excludes costs of disposal.

UK VARIABLE PREMIUM PROPOSAL(1)

Year One (current prices)

	MECU	£M
Compensatory Premia	94	61
Intervention Costs (2)	7	4
Variable Premia (3)	40	26
Total EC Expenditure	141	91
UK Gross Contribution	25	16
UK Receipts (3)	33	21
UK Net Contribution (Benefit)	8	5

Long-term (at real prices)

Intervention Costs (4)	74	48
Variable Premia (3)	172	111
Total EC Expenditure	246	159
UK Gross Contribution	43	28
UK Receipts (3)	145	94
UK Net Contribution (Benefit)	102	66

NOTES:

(1) A support level of 293 ECU/100kg using intervention on the continent and a support level of 288 ECU/100kg in the UK and Ireland using variable premia.

(2) Includes initial national outlay on purchase costs.

(3) Variable premia receipts less clawback on exports.

(4) Excludes costs of disposal.

7

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Subject file - CAP - PAS

ECD(1)
PS
PS/CPS
PS/PUS
Lord Bridges
Mr. Hannay

Mr Foyster.
MT 21/5

SECRET

G R Waters Esq
Private Secretary
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1A 2HH

20 May 1980

Dear Garth,

Cc as for X

Leg
pm (Sheppard)
21/5

COMMUNITY BUDGET: THE NEXT STEPS: LAMB

X Your letter of 9 May to Michael Alexander enclosed two papers on the items which are becoming closely linked with the Budget negotiations ie fisheries and lamb. This letter is concerned with that on lamb.

Intervention

My Secretary of State fully endorses the line which your Minister is proposing. In the present climate, we cannot expect to be able to block all intervention; we should therefore aim to make it less expensive and less of a nonsense. To that end, he agrees that our prime objective on the internal regime should be to negotiate reductions in the basic and intervention prices from the very high levels at present proposed by the Commission.

Resource Gain

The previous aim of permitting nationally-financed premiums to compensate Continental producers for loss of income is, in my Secretary of State's view, not now sustainable. The alternative objective of seeking FEOGA benefits for the UK in proportion to our production levels is in his view the one to be pursued, as your Minister proposes.

Premiums

The Secretary of State is intrigued by the ingenious suggestion in paragraph 12 of your Minister's paper for the creation of a premium - or a kind of deficiency payments scheme - to bridge the gap between UK market prices (at the level they would settle under conditions of free trade) and the level at which the market would be supported by intervention, by direct income payments to producers. The difficulty in practice, however, is that the market price is an average composed of widely varying prices, not all related to quality of product.

SECRET

Accordingly, in areas where market prices rarely reached the average level upon which premiums would be based, these market price levels plus the premium might not provide a total return to producers as attractive as intervention. For example, in Scotland we are over 300 per cent self-sufficient in lamb, and at a significant distance from the main centres of consumption. Our market prices are, as a result normally below, and frequently well below the national average. While therefore your Minister's proposal might reduce intervention in some parts of the country, it might prove in other parts a positive incentive to its increase.

My Secretary of State is concerned not only at the wasteful effects of such a situation, important though that is, but also at the effects on production patterns if we were to create a system of 'producing for intervention'. The high returns thus generated could well lead to a considerable leap in production levels. Such an increase, together with falling home demand for lamb, could yet further increase the need for intervention.

Before therefore Ministers take a collective view on the options, my Secretary of State suggests that officials of the relevant Departments should meet quickly to explore further the implications for production and trade in different parts of the UK of a combined premium/intervention scheme. If that exploration bears out his fear that the scheme might actually increase intervention in some parts of the country, he is inclined to think that it might be best to apply intervention in the UK with the same trigger prices as elsewhere in the Community. Despite its admitted difficulties, this course would avoid both distortions of trade and the considerable administrative complexity and large numbers of officials required, for example, to claw back premiums on our considerable volume of live and carcase exports. We should of course first try to get the proposed level of support lowered, but if we failed initially to get it set low enough we could keep up pressure each year to reduce the support level in real terms.

I am copying this letter to the recipients of yours.

Yours sincerely,

European Communities
Commission
Press Release

20 Kensington Palace Gardens
London W8 4QQ
Telephone: 01-727 8090

ISEC/20/80

May 19, 1980

EMBARGO: 15.00 HOURS, TUESDAY, MAY 20, 1980

R22 TWL.

£35M TO UNITED KINGDOM UNDER REGIONAL FUND

(Second allocation of grants, 1980)

Attached is a list of the projects in respect of which grants have been approved in the second allocation under the Fund's 1980 budget. The money will be paid to the United Kingdom Government in step with national expenditure on the projects concerned. This brings Regional Fund grants to the United Kingdom to £116m this year, and to £530m since the Fund began operations in 1975.

About two-thirds of ERDF grants are towards infrastructure projects. Here the finance is passed on in full to the local and other public authorities concerned, thus reducing the amount they have to borrow to finance the investment in question.

As far as industrial projects are concerned, the Community grants now announced represent a fund contribution of up to half the cost of the assistance given to individual projects by the UK Government. European Regional Development Fund grants are not paid to the companies concerned in addition to the assistance they receive from the Government.

	Industry, Tourism		Infrastructure		Totals in £m	
	2nd tranche 1980	Total 1975-80	2nd tranche 1980	Total 1975-80	2nd tranche 1980	Total 1975-80
Northern England	-	36.92	5.02	72.92	5.02	109.84
N.W. England	-	63.98	1.56	33.33	1.56	97.31
Yorkshire & Humberside	-	4.84	2.27	30.50	2.27	35.34
East Midlands	-	1.29	-	1.50	-	2.79
S.W. England	-	1.49	0.26	10.12	0.26	11.61
Scotland(1)	1.19	26.47	9.23	84.64	10.42	118.00
Wales	-	38.94	3.99	49.92	3.99	88.86
Northern Ireland(2)	2.11	31.55	9.26	45.75	11.37	77.76
West Midlands	-	-	-	0.35	-	0.35
	3.30	205.48	31.59	329.03	34.89	541.86
Revisions						12.85
						529.01

(1) includes £6.89m for mountain region infrastructure 1975-79

(2) includes £460 000 for mountain region infrastructure 1975-79

.../

NORTHERN ENGLAND

TOTAL AID (all projects) £5 019 550

Infrastructure projects

- Northumberland, Tynedale - Northumbrian Water Authority (construction of reservoir and connecting aqueduct - Kielder Reservoir) £4 054 000
- Tyne and Wear, Tyneside - Northumbrian Water Authority (Tyneside Sewerage Scheme, Part II) £900 000

Aid is given under global applications to the following projects:

County: Cumbria

- Coniston, South Lakeland (Coniston Station workshops - site preparation works and construction of access roads, sewers, water mains and electricity services) £10 650

County: Northumberland

- Amble Harbour, Alnwick (renewal of quay, provision of water, electrical services and a covered landing area) £54 900

YORKSHIRE AND HUMBERSIDE

TOTAL AID (all projects) £2 268 860

Infrastructure projects

- South Yorkshire, Rotherham to Doncaster - British Waterways Board (river navigation improvement, new locks, channel realignment and embankment reinforcement to allow the passage of larger barges) £1 009 060
- South Yorkshire, Sheffield (construction of a relief sewer, 13 new storm storage overflows and a pumping station) £1 259 800

NORTH WEST ENGLAND

TOTAL AID (all projects) £1 560 000

Infrastructure projects

- Lancashire, Burnley and Pendle (Calder Valley Route - Barracks Interchange to Brierfield Link) £1 524 000

Aid is given under a global application to the following project:

County: Merseyside

- Liverpool (diversion of sewer to serve Kingsway Industrial Site)

Total aid in respect of 1 infrastructure project (global application) £36 000

SOUTH WEST ENGLAND.

TOTAL AID (all projects) £259 950

Infrastructure projects

- Cornwall, Caradon (reservoir and ancillary works) £205 350

Aid is given under a global application to the following projects:

County: Devon

- Bideford Quay, Torridge (restructuring of foundations of quay and stabilisation of quay wall)
- Port of Plymouth (preparation of ground area for roadway and provision of floating fender for roll on/roll off berth)

Total aid in respect of 2 infrastructure projects (global application) £54 600

TOTAL AID (all projects) £10 415 481

A. Infrastructure projects

- Strathclyde, Glasgow £3 210 000
  (Monkland motorway, Stage 2B - construction of 3 lane dual carriageway with interchanges and footbridges, lighting and signs)

Aid is given under global applications to the following projects:

Central Region

- Alloa
  (construction of a roundabout at junction of Lime Tree Walk and Bowhouse Road)
- Falkirk
  (improvement of junction of A904 and Middlefield Road, and the installation of traffic lights)

Fife Region

- Dysart
  (exchange extension and installation of modern electronic telecommunication equipment)
- Methil Docks
  (provision of new gates and associated works at No 2 Dock)

Grampian Region

- Aberdeen Harbour
  (reconstruction of Commercial Quay West)
- Buckie
  (construction of 5,000 cubic metre capacity service reservoir)
- Bridge of Don, Murcar Industrial Estate
  (provision of access roads, water, surface and foul water drainage and electricity supply)

Strathclyde Region

- Barrhead
- Cambuslang
- Possil
- Scotstoun

  } Exchange extension and installation of modern electronic telecommuncation equipment

- Douglas, Glebe Industrial Estate
  (provision of drainage, access and service roads and yard area)
- Greenock, Larkfield Industrial Estate
  (provision of access road)
- Wishaw, Netherton Industrial Estate
  (provision of water supply, sewers and roads - Phase II)
- Isle of Islay, Port Ellen
  (improvements to pier)

SCOTLAND

Tayside Region

- Arbroath, Kirkton Industrial Estate
  (access roads, sewers and water)
- Arbroath (exchange extension and installation of modern electronic telecommunication equipment)
- Dundee (construction of new electronic telecommunication exchange)

Orkney Islands

- Westray, Gill Pier
  (extension of harbour facilities)

Total aid in respect of 19 infrastructure projects (global application) £6 019 396

B. Industrial projects

Aid is given under a global application to the following projects:

Strathclyde Region

- Clydebank, Arnott Young Ltd
  (processing of ferrous scrap)
- Cumbernauld, Thames Case Ltd
  (manufacture of packaging material)
- Kinning Park, Yarrow Engineers (Glasgow) Ltd
  (metal fabrication)
- Kilmarnock, Cleland Jamieson Ltd
  (manufacture of lace and warp and knitted products)
- Govan, Keystone Valve (UK) Ltd
  (actuator equipment)
- Motherwell, Motherwell Bridge Engineering Ltd
  (heavy engineering)
- Wishaw, Daiwa Sports Ltd
  (manufacture of fishing rods)

Total aid in respect of 7 industrial projects (global application) £1 186 085

WALES

TOTAL AID (all projects) £3 992 439

Infrastructure projects

- South Glamorgan, Cardiff - South Glamorgan County Council £1 994 700
  (peripheral distributor road providing access from west to southern industrial and dockland areas of Cardiff)

- Dyfed, Fishguard Harbour, Haverfordwest
  (improvement of rail track) £227 637

Aid is given under global applications to the following projects:

County: Clwyd

- Deeside, Sandycroft Industrial Estate
  (access road, sewers, water supply and electricity)
- Ruthin and Denbigh
  (new link road to connect industrial estate with new by-pass)
- Shotton and Deeside
  (water and sewerage services to Deeside Industrial Park)
- Wrexham, Llay Industrial Estate
  (extension to roads and sewers)
- Wrexham, Llay Industrial Estate
  (provision of electricity substation)
- Wrexham, Whitegate factory complex
  (roads, sewers and mains)

County: Gwent

- Blaenavon, Gilchrist Thomas Industrial Estate
  (improvement of access road)
- Ebbw Vale, Nantybwch Pumping Station
  (new pumping station)
- Ebbw Vale
  (Pontsticyll to Rhymney Bridge water pipeline)
- Ebbw Vale, Mynydd Islwyn Service Reservoir
  (new service reservoir)

County: Gwynedd

- Porthmadog, A498 Porthmadog-Penygwryd Road
  (diversion and cliff stabilisation)
- Pwllheli and Porthmadog
  (extension of existing services to industrial plots)
- Pwllheli and Porthmadog, East Lleyn Service Reservoir
  (construction of reinforced concrete service reservoir)

WALES

County: Mid Glamorgan

- Ferndale
  (access road to serve proposed industrial site)
- Llantrisant
  (River Ely flood prevention scheme)

County: South Glamorgan

- Cardiff
  (800 metres of iron spun pipe and fittings for water main - stage 2)

Total aid in respect of 17 infrastructure projects (global application) £1 997 739

NORTHERN IRELAND

TOTAL AID (all projects) £11 369 983

A. Infrastructure projects

- Londonderry - Dept of the Environment for Northern Ireland £6 304 000
  (bridge over the River Foyle)

Aid is given under a global application to the following projects:

Belfast

- Belfast
  i) lift on/lift off unit load facilities at Pollock Dock
  ii) new road to service a reclaimed area of harbour lands
  iii) additional handling facilities at the Airport Wharf
  iv) strengthening of oil refinery jetty
  v) lift on/lift off facilities at Herdman Channel West
  vi) additional works at Richardsons Wharf
  vii) construction of car compound

County Antrim

- Carrickfergus Harbour
  (improvement to breakwaters)
- Carnlough Harbour
  (improvement to quays)
- Larne Harbour
  (extension and improvement of passenger terminal building)

County Down

- Newcastle Harbour
  (improvement to quays and existing slipway; construction of car park)

NORTHERN IRELAND

County Londonderry

- Portrush Harbour
  (improvement to breakwaters and the infilling of cavities in the foundations created by wave action)
- Londonderry
  (strengthening and improving quays in order to operate new mobile cranes)

Total aid in respect of 7 infrastructure projects (global application) £2 960 383

B. Industrial projects

Aid is given under a global application to the following projects:

Belfast

- Belfast, LFE International BV
  (pumps and control equipment)
- Belfast, American Monitor International Ltd
  (computerised electronic analysing equipment and associated reagents)

County Down

- Bangor, Canadian Technical Tapes (UK) Ltd
  (pressure sensitive adhesive tapes)

County Londonderry

- Londonderry, National Supply Company (UK) Ltd
  (oil well-head equipment)

Total aid in respect of 4 industrial projects (global application) £2 105 600

*

* *

Foreign and Commonwealth Office
London SW1

19 May 1980

COMMUNITY BUDGET : ADDITIONAL TWELFTHS FOR FEOGA

Thank you for your letter of 14 May to Peter Carrington.

I agree that we should allow adequate additional twelfths to cover June FEOGA advances. Our major lever in securing agreement to a reasonable UK budget settlement is undoubtedly the CAP price fixing. The question of additional twelfths for FEOGA expenditure is subsidiary and I believe that to try to refuse additional twelfths, with all that this implied for the use of the Luxembourg compromise, would irritate all our partners to no purpose.

Given the tight timetable I agree also with your proposals for dealing with the requirements of the Scrutiny Committee.

I am sending copies of this letter to the Prime Minister, Members of OD(E) and Sir Robert Armstrong.

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

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

19 May 1980

Subject file
CAP - Pt 5

The Rt. Hon. Peter Walker, MBE., MP

Dear Peter

SHEEPMEAT AND THE BUDGET

We are to discuss in OD(E) on Wednesday the way in which we should deal with the next stage in the discussions on sheepmeat. I have yet to see your proposals but I thought that it would be helpful if I gave you an advance indication of the main considerations as I see them.

Clearly, our first objective must be to convince the rest of the Community that a heavy intervention regime leading to a new sheep mountain would be a disaster, not just for this country but for the Community as a whole. I note that the Foreign and Commonwealth Secretary made this point very forcibly when he saw Colombo in Brussels on 14 May (UKDEL Nato telegram No.230, paragraph 2). There is some evidence that we are beginning to make an impression on the Commission. For example, I note from your 13th May discussion that the Commission are preparing a sheepmeat regulation "based on very limited intervention and no export rebates". If in the event a settlement on the Budget turns on our accepting a sheepmeat regime we must keep them up to that.

Even supposing, however, that we succeed in severely limiting the scope of intervention in the other member states, I share your view that we must avoid applying it in the UK and I am prepared to accept that if our producers are not to have recourse to intervention here, we should continue to underpin their returns by some kind of deficiency payment system. The proposals made by the

/Commission

Commission at an earlier stage in the sheepmeat negotiations that the regime should include the option for member states to operate variable premia provide an opening for you to argue for such a system in the UK, and I understand that you have already raised this possibility with Commissioner Gundelach.

If the Commission are prepared to renew this variable premia proposal and the other member states, including France, accept in principle that we should have the option of operating it as an alternative to intervention, the key question will be the level of the target price.

In determining our objectives for the UK target price we need to take account of our general view that the CAP should not encourage more production than can be absorbed by the market, and of the interests of New Zealand in continuing her traditional supplies to the UK. We also have to avoid a price level which will provoke excessive expenditure both because of our general views on the need to limit CAP spending and for the particular reason that if we achieve a settlement of the problem of the UK contribution to the EEC budget which sets a ceiling to our net contributions, expenditure on premia in the UK will reduce the public expenditure advantages of the budget settlement itself.

Against this background, I consider that we should apply to the decision on the UK target price the same considerations that were applied to the recent decision determining the guaranteed price for fat sheep for 1980-81. This suggests that the target price should be at or close to the present guaranteed price of 155p per kg. To choose a significantly higher price would, in my view, risk stimulating more production than could be disposed of at the target price level. This would be a recipe for escalating expenditure and depressed market prices, which would be almost as damaging to our general CAP objectives and to the interests of New Zealand, as an intervention system.

I am sending copies of this letter to the Prime Minister, to the other members of OD(E) and to Sir Robert Armstrong.

GEOFFREY HOWE

FROM:
THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L. Euro 18.

HOUSE OF LORDS,
SW1A 0PW

RESTRICTED

15th May 1980

The Rt. Hon. Sir Ian Gilmour, Bt., M.P.
Lord Privy Seal,
Foreign Office,
Downing Street,
SW1A 2AL.

Yes

Dear Ian.

EUROPEAN COMMUNITY (REFERENDUM) BILL

Thank you for your letter of 6th May about Mr. Dennis Canavan's Ten-Minute Rule Motion to provide for the holding of a referendum on whether the United Kingdom should continue to be a member of the European Community.

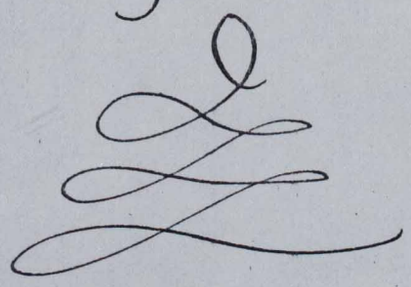
Subject to any views the Chancellor of the Duchy of Lancaster or the Chief Whip may wish to express, I agree that on balance this motion should be handled in the normal way, as you propose, that is by not opposing its introduction but by ensuring that any further progress is blocked.

Clearly, if these tactics are to work, we shall need to discourage any Government backbencher from rising to oppose Mr. Canavan's motion. If, however, the motion is opposed, I would suggest that every effort is made to ensure that Mr. Canavan's motion is successfully voted down.

I assume that our embassies in Europe will be appropriately briefed on the nature of and prospects for Mr. Canavan's Bill, and on the Government's attitude, against the possibility that the motion does attract some attention.

I am copying this letter to the Prime Minister, to the members of the Legislation Committee and of the Sub-Committee on European Questions, and to First Parliamentary Counsel and Sir Robert Armstrong.

Yrs.



RESTRICTED

FILE

RH

CONFIDENTIAL

OD(E)
FCO
HMT
No 10 Press
(No 10 Privy Seal)
MAFF
Trade
Att. Gen.
+ D/Ind + C.O.

15 May, 1980

French Observance of Community Rules

The Prime Minister has seen your letter to me of 24 April. She has read with interest the note enclosed with your letter. She has not asked for any further action to be taken at present.

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

M. O'D. B. ALEXANDER

M J Richardson, Esq
Lord Privy Seal's Office

CONFIDENTIAL

DSS

Subject file - Euro Bd
Council - Pt 3

7

SECRET

CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

01-233 7256

Qz 01571

15 May 1980

Dear Michael.

EUROPEAN COUNCIL LUXEMBOURG: COMMUNITY BUDGET

Thank you for your minute of 14 May with the Prime Minister's approved version of the final paragraph of the draft record enclosed with my letter of 1 May to Ken Couzens.

This has been incorporated together with other comments which I received in the attached revised text, which I hope can now be regarded as the final version.

I am sending copies of this letter and its enclosure to George Walden, Robert Armstrong, Michael Palliser, Michael Butler, Ken Couzens and Tom Bridges.

Yours ever

Michael

M D M FRANKLIN

Enc

M O'D Alexander Esq
10 Downing Street

SECRET

COURSE OF THE NEGOTIATIONS ON THE COMMUNITY BUDGET AT THE EUROPEAN COUNCIL, LUXEMBOURG

1. President Giscard, having made a specific proposition to Signor Cossiga on Friday 25 April (explained even more explicitly and favourably to our Ambassador by M Wahl Paris telegram No. 398), the Prime Minister indicated to Signor Cossiga subsequently that this approach might form an acceptable basis for negotiation if a satisfactory base figure could be agreed upon. But our 1979 net contribution was already too high.

2. A meeting of the Ruggiero Group was called for 8.30 p.m. on Saturday 29 April which the French representative, M Paye, did not attend. The reason appears to have been that the Quai were not happy with President Giscard's proposal and were busy trying to claw it back. Even when M Paye eventually arrived for the session of the Ruggiero Group on Sunday morning he was in no position to talk about the French proposals.

3. The Budget problem was not discussed by the European Council on Sunday, but at the Heads of Government dinner on Sunday evening it was agreed that the Ruggiero Group should meet to hear the French proposals. Even then they emerged in an obscure, tentative and attenuated form. In accordance with what we had heard from Cossiga and Wahl, they proposed a UK contribution of 849 meua (as in 1979) for 1980. But instead of proposing the same net contribution in 1981 and 1982 as in 1980, the French said that we would get the same level of refund in 1981 and 1982 as in 1980. At one point it was even suggested that the UK's net contribution in 1980 should be raised to take account of the effects of the agricultural price settlement.

4. A subsequent meeting of the Ruggiero Group discussed various possible methods of calculating the UK's net contribution (or its refund) and eventually submitted three to the European Council on Monday morning (Annex 1). (There was some suggestion, not embodied in any piece of paper, that if a solution on the basis of either the second or third options were reached it might be unnecessary to resort

to an Article 235 regulation as the vehicle for payment.)

5. The European Council decided to concentrate its discussion on the second of the three options, i.e. the Giscard scheme. We proposed that the base figure should be the average of the three years 1977-79. Chancellor Schmidt said he could accept the average of the last two years, i.e. 1978-79, but for 1980 only. Mr Jenkins confirmed that this would produce a figure of 538 meua (although the figures for 1978 are not in fact comparable with those for 1979).

6. Mr van Agt preferred the first option and proposed 1,000 meua for the first three years and 800 meua for 1983 and 1984. He subsequently offered to take account of the effect of the agricultural price settlement and raised the figure to 1,100 meua.

7. President Giscard wanted the Commission and the Council to examine during the course of 1980 the way in which the Community Budget could appropriately be financed and a final and durable mechanism found to deal with the problem of unacceptable situations. According to a subsequent account from Ruggiero, what lay behind the thought was first the imminence of the 1 per cent VAT ceiling; second the idea of a ceiling on the net benefit to be derived by countries like Netherlands and Denmark with above-average GNP; and third the possibility of supplementary Community expenditure on the CAP by national financial contributions in proportion to benefit and/or the production of surpluses. As to the figure for the United Kingdom it was understood that if the Council could not agree on any other basis, the United Kingdom's net contribution for 1981 would be reduced by the amount of the refund we received for 1980. Giscard thought this might produce a United Kingdom net contribution in 1981 of something below 849 meua, which Mr Jenkins rounded to 800.

8. The Prime Minister, after an interruption in the Council meeting, made a counter-proposal (Annex 2). This was not acceptable because it included 1982 and because the rate of increase in our net contribution was less than in the Giscard/Schmidt proposal.

9. During the subsequent discussion the Prime Minister considered whether she might be able to accept the figures being determined for only two years. This would have been on the basis that there was a firm agreement to review the structure of the budget in the interim and that the level of our net contribution for 1981 was determined on the basis proposed by the UK, i.e. in proportion to the rise in the total Community budget. It was thought that this might produce a net contribution of 650 meua (hence Mr Jenkins' subsequent contention that the gap was only 150 meua). But at the point at which the negotiations on the budget were suspended the Prime Minister had not agreed to drop her demand that a firm figure should be fixed for the third year.

CABINET OFFICE SW1
15 MAY 1980

ANNEX 1

EXTRACT FROM DRAFT PRODUCED BY THE RUGGIERO GROUP, 28 APRIL

Three possible formulae for determining the amount are submitted for consideration by the European Council:-

(i) A solution based on the Commission proposal. This provides for a fixed sum (partly arising from the operation of the financial mechanism and the remainder from the additional expenditure measures in the United Kingdom) which would be the same each year for whatever duration was agreed.

One delegation suggests that there should be a possibility of an automatic adjustment of this figure in future years in the same proportion as the development of the Community budget.

(ii) There would be established for 1980 a figure which would represent the "appropriate" United Kingdom part of financing the Community budget.

One delegation proposed that this should be the United Kingdom's net part in financing the 1979 budget increased by the percentage increase of the Community budget from 1979 to 1980.

Another delegation proposed that it should be based on the average of the United Kingdom's part in financing the Community budgets for the three years 1977, 1978 and 1979. At the end of 1980 the actual United Kingdom part in financing the budget would be established. The difference between that figure and the "appropriate" figure mentioned above would be made available to the United Kingdom through the mechanisms mentioned in (i) above.
One delegation proposes that the same sums should be made available to the United Kingdom for each of the remaining years of the agreed duration.

Another delegation suggests that there should be a possibility of an automatic adjustment of this figure in future years in the same proportion as the development of the Community budget.

(iii) At the end of each year of the agreed duration, the United Kingdom's net effective part in financing the budget would be established. The financing of this sum would be divided between the United Kingdom and the other eight member countries on a percentage to be agreed.

Certain delegations proposed that this percentage should be degressive over the years of the agreed duration.

Another delegation suggests that there should be a possibility of an automatic adjustment of this figure in future years in the same proportion as the development of the Community budget.

ANNEX 2

PRIME MINISTER'S COUNTER-PROPOSAL

1. I have reflected on all the suggestions which have been made, and I have considered carefully how far I could take these into account in a final effort at compromise.

2. I would be prepared to accept an arrangement lasting for only 3 years instead of 5 or 6 years.

3. Secondly, I could accept Chancellor Schmidt's proposal that for the 1980 budget we arrive at the UK's net contribution on the basis of the 1978/79 average, that is 539 MEUA (though the figures will all need to be on the same basis).

4. Thirdly, I would also be ready to agree that our net contribution for 1981 and 1982 should be increased from the 539 MEUA by the same percentage as the increase in the Community budget. But I must have 3 years.

5. There would be an amended financial mechanism and an Article 235 Regulation, as already provisionally agreed.

6. Finally, with this short duration I would have to have a satisfactory review clause providing for the review before the end of 1981 (as already specified in the financial mechanism).

7. We came to this Council meeting knowing that there were three key issues to settle: amount, duration and how to share the risk. On amount, I have agreed to accept a net contribution of 539 MEUA and on duration I have come down from 6 years to 3. On sharing the risk, I have agreed that over the next 3 years our net contribution will rise in line with the budget.

Ref: A02176

CONFIDENTIAL

PRIME MINISTER

Community Affairs

Since the Cabinet's full discussion on 1st May of the outcome of the Luxembourg European Council, there has been some procedural progress on our net contribution problem and related issues, but no movement yet on substance. The two Councils last week (Foreign Affairs and Agriculture) passed off without damage to our interests: no attempt was made to resort to majority voting on the CAP price package and the United Kingdom made some gains on detailed aspects, notably whisky export refunds. Though France and Germany formally withdrew their Luxembourg offers, the Presidency stressed the importance of solving all the inter-related issues before the end of May and the Foreign Affairs Council agreed that discussions should continue at the 17th-18th May informal Foreign Ministers meeting. Since these Councils a number of bilateral contacts have taken place and the Commission have brought forward revised proposals on sheepmeat.

2. You might wish to inform the Cabinet of the main points that arose in your talks on the budget problem in Belgrade with Signor Cossiga and Chancellor Schmidt.

3. The Lord Privy Seal (in the absence of the Foreign and Commonwealth Secretary) might be invited to report on the outcome of the 5th-6th May Foreign Affairs Council, Lord Carrington's talks on 13th-14th May with Signor Colombo and Mr. Jenkins, and the prospects for the informal Foreign Ministers meeting at Naples this coming week-end.

4. The Minister of Agriculture might be invited to report on the outcome of the 6th-7th May Agriculture Council. He might also report on his talk with Commissioner Gundelach on 13th May about sheepmeat and fish, which led to your agreeing to a private bilateral meeting on 14th May between Mr. Buchanan-Smith and Herr Rohr on possible guidelines for resumed negotiations on a common fisheries policy.

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5. The Secretary of State for Energy might be invited to report on the outcome of the 13th May Energy Council, at which agreement was reached on 1990 energy objectives and new lines of action on energy saving.

6. An informal meeting of Social Affairs Ministers will take place in Venice on 15th-16th May. The Secretary of State for Employment will represent the United Kingdom.

RCA

(Robert Armstrong)

14th May 1980

GRS 1300
CONFIDENTIAL

CONFIDENTIAL

FM UKDEL NATO 141045Z MAY 80
TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE,
TELEGRAM NUMBER 230 OF 14 MAY 1980,
INFO PRIORITY BONN, PARIS, ROME, UKREP EC,
INFO ROUTINE COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, BRUSSELS.

COMMUNITY BUDGET.

1. THE SECRETARY OF STATE HAD AN HOUR'S MEETING WITH THE ITALIAN FOREIGN MINISTER THIS MORNING. SR COLOMBO SAID THAT HE HOPED MINISTERS WOULD BE EMPOWERED TO NEGOTIATE IN NAPLES ON 17/18 MAY, AND THAT IT WOULD BE POSSIBLE TO MAKE REAL PROGRESS THERE. HE ENVISAGED THAT THE OUTLINES OF A SOLUTION MIGHT BE ACHIEVED IN NAPLES WHICH COULD BE RATIFIED AT A FORMAL COUNCIL MEETING ON 28/29 MAY. THE EUROPEAN COUNCIL IN VENICE WOULD THEN MERELY TAKE NOTE. THERE SEEMED TO BE SOME PROBLEM WITH THE FRENCH WHO WERE ARGUING THAT IT WAS FOR THE FINANCE COUNCIL TO DISCUSS FIGURES. THE POSTPONEMENT OF THE FINANCE COUNCIL MEETING HAD HOWEVER BEEN AGREED BY EVERYONE. LORD CARRINGTON SAID THAT MONSIEUR FRANCOIS-PONCET HAD TOLD HIM EARLIER IN THE WEEK THAT THE FRENCH WOULD NOT BE PREPARED TO DISCUSS FIGURES AT NAPLES BECAUSE THIS WAS THE RESPONSIBILITY OF THE FRENCH FINANCE MINISTER. SR COLOMBO SAID THAT THIS WAS NOT A SERIOUS ARGUMENT: EVERYONE KNEW WHAT FIGURES HAD BEEN DISCUSSED IN LUXEMBOURG. NONETHELESS, THERE WOULD BE PROBLEMS IN TAKING THESE AS A STARTING POINT. BOTH THE FRENCH AND THE GERMANS HAD SPECIFICALLY SAID THAT THEIR LUXEMBOURG OFFERS WERE WITHDRAWN AND CHANCELLOR SCHMIDT HAD RUN INTO DIFFICULTIES WITH HIS FINANCE MINISTER OVER WHAT HE HAD SUGGESTED. SR COLOMBO ASKED WHAT WAS THE CURRENT BRITISH ATTITUDE.

2. LORD CARRINGTON SAID THAT THE OFFERS WHICH HAD BEEN MADE IN LUXEMBOURG HAD NOT BEEN ADEQUATE. IT WENT WITHOUT SAYING THEREFORE THAT THE BRITISH GOVERNMENT WOULD REQUIRE SOMETHING MORE. THE MOST CRUCIAL ISSUE WAS THAT OF DURATION. BRITAIN WOULD BE PREPARED TO SETTLE FOR LESS THAN THE FIVE YEAR PERIOD WHICH IT HAD ORIGINALLY DEMANDED. BUT IT WOULD BE NECESSARY TO FIND SOMETHING LONGER THAN A ONE OR ONE TO TWO YEAR SOLUTION. THE OTHER ISSUES LINKED TO THE BUDGET PROBLEM ALL SEEMED CAPABLE OF SOLUTION. BUT THE PROPOSALS WHICH THE COMMISSION HAD PUT FORWARD ON SHEEPMEAT WERE APPALLING AND WOULD HAVE CATASTROPHIC CONSEQUENCES FOR THE COMMUNITY AS A WHOLE: VAST AMOUNTS OF BRITISH AND IRISH LAMB WOULD BE SOLD INTO INTERVENTION IN FRANCE, CONSUMPTION WITHIN THE COMMUNITY WOULD DROP BECAUSE OF THE HIGH PRICES AND THERE WOULD BE PRESSURE TO FIND EXPORT OUTLETS FOR THE INTERVENTION STOCKS WHICH WOULD DISRUPT WORLD TRADE. IT OUGHT HOWEVER TO BE POSSIBLE TO DEVISE A SOLUTION TO THE PROBLEM WHICH AVOIDED THESE DIFFICULTIES. MR WALKER HAD HAD A MEETING WITH COMMISSIONER GUNDELACH ON THE PREVIOUS DAY AND IT SEEMED THAT THEY HAD MADE GOOD PROGRESS.

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3. SR COLOMBO ASKED ABOUT FISH WHICH WAS CLEARLY AN IMPORTANT ISSUE FOR CHANCELLOR SCHMIDT. LORD CARRINGTON SAID THAT IT WOULD NOT BE POSSIBLE TO NEGOTIATE A COMPLETE SOLUTION TO THE PROBLEM BEFORE THE END OF MAY. NEITHER WAS THERE ANY NEED TO DO SO: FISHERIES MINISTERS WERE MAKING GOOD PROGRESS IN TACKLING IT. THE BRITISH GOVERNMENT WAS WILLING TO LOOK FOR SUITABLE GUIDELINES ON FISHERIES, THE WORDING WOULD HAVE TO BE SATISFACTORY. IT WOULD NOT BE ACCEPTABLE TO HAVE A BALD REFERENCE TO EQUAL ACCESS. THERE WAS NEED FOR RECOGNITION OF THE NEED FOR DEROGATIONS FROM THIS PRINCIPLE FOR COUNTRIES, SUCH AS THE UK, WHERE THE DEPENDENCE OF CERTAIN COMMUNITIES ON FISHING PRESENTED A SPECIAL PROBLEM. THE BRITISH GOVERNMENT HAD IT INMIND TO SEND THE MINISTER OF STATE FOR FISHERIES TO BONN IN THE NEAR FUTURE TO DISCUSS A FORM OF WORDS WITH THE GERMANS.

4. SR COLOMBO ALSO ASKED ABOUT AGRICULTURAL PRICES. LORD CARRINGTON SAID THAT THE PROPOSALS WHICH THE COMMISSION HAD MADE AND WHICH THE OTHER EIGHT GOVERNMENTS WERE PREPARED TO ACCEPT WERE MISGUIDED AND WERE LEADING THE COMMUNITY IN THE WRONG DIRECTION. NONETHELESS, IF THE OTHER ELEMENTS OF A SOLUTION TO THE BUDGET PROBLEM HAD BEEN SATISFACTORILY RESOLVED, HE SUPPOSED THAT BRITAIN WOULD, RELUCTANTLY AND WITH SEVERE MISGIVINGS, HAVE TO GO ALONG WITH THE PRICE PROPOSALS.

5. SR COLOMBO SAID THAT THE RELATIONSHIP BETWEEN DURATION AND AMOUNT OF A SOLUTION WOULD OBVIOUSLY BE THE KEY ISSUE. THERE WERE TWO ALTERNATIVES: EITHER A SOLUTION OF LONGER DURATION BUT WITH A LOWER FIGURE FOR THE UK THAN WHAT HAD BEEN DISCUSSED IN LUXEMBOURG, OR A TEMPORARY SOLUTION, WITH A HIGH FIGURE, WHICH WOULD LAST ONE YEAR OR PERHAPS TWO BUT WOULD BE COUPLED WITH A PROVISION FOR A REVISION OF THE COMMUNITY'S FINANCING MECHANISM AND OF THE STRUCTURE OF ITS EXPENDITURE. IT WAS NECESSARY HOWEVER TO BE REALISTIC. HIS IMPRESSION WAS THAT THERE WAS VERY LITTLE MARGIN FOR MANOEUVRE ON THE FIGURES. SINCE THE LUXEMBOURG MEETING THE PSYCHOLOGICAL ATMOSPHER HAD HARDENED.

6. LORD CARRINGTON REITERATED THAT ANY SOLUTION WOULD HAVE TO BE BETTER, FROM THE UK'S POINT OF VIEW, THAN WHAT HAD BEEN ON OFFER AT LUXEMBOURG. A ONE YEAR OR TWO YEAR PERIOD WOULD NOT BE ACCEPTABLE. THE COMMUNITY HAD SPENT THE WHOLE OF THE LAST YEAR TRYING TO TACKLE THE BRITISH BUDGETARY PROBLEM, AT THE EXPENSE OF OTHER ISSUES ON WHICH IT OUGHT TO HAVE BEEN MAKING PROGRESS AND AT A COST OF CONSIDERABLE INTERNAL ILL-FEELING. IT WOULD NOT BE SENSIBLE TO HAVE TO GO THROUGH THIS WHOLE PROCESS AGAIN IN A FEW MONTHS TIME. THREE YEARS WAS THE MINIMUM BREATHING SPACE NECESSARY. IT MIGHT OF COURSE BE POSSIBLE TO QUALIFY THE NEED FOR A THREE YEAR SOLUTION. IF, FOR EXAMPLE, THE FRENCH IDEA OF EXPLORING A NEW SYSTEM OF FINANCING THE COMMUNITY WERE ACCEPTED, AND THIS RESULTED IN AGREEMENT BEFORE THE END OF THE THREE YEAR PERIOD ON A NEW FINANCING MECHANISM, THEN THERE MIGHT NO LONGER BE ANY NEED FOR SPECIAL ARRANGEMENTS FOR THE UNITED KINGDOM. BUT ANY PROPOSAL ALONG THESE LINES WOULD NEED TO BE ACCOMPANIED BY AN ASSURANCE THAT

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IF IT DID NOT PROVE POSSIBLE TO AGREE ON A NEW SYSTEM, THEN THE ARRANGEMENTS FOR RECOVING THE UNITED KINGDOM'S CONTRIBUTION UNDER THE EXISTING ONE WOULD CONTINUE FOR THE SECOND AND THIRD YEARS. LORD CARRINGTON ADDED THAT A FURTHER ARGUMENT AGAINST A PERIOD OF LESS THAN THREE YEARS WAS THAT IN TWO YEARS OR SO THE COMMUNITY WOULD HAVE TO FACE UP TO THE PROBLEM OF RESTRUCTURING ITS EXPENDITURE BECAUSE IT WOULD REACH THE 1 PERCENT VAT CEILING. THIS WAS AN ISSUE WHICH SHOULD BE TACKLED IN ITS OWN RIGHT AND NOT AS SOMETHING WHICH WOULD APPEAR TO BE IMPOSED BY THE BRITISH BUDGET PROBLEM.

7. AS REGARDS THE FIGURES THEMSELVES, LORD CARRINGTON RECALLED THAT IN LUXEMBOURG THE BRITISH PRIME MINISTER HAD SUGGESTED TAKING CHANCELLOR SCHMIDT'S PROPOSAL OF A CONTRIBUTION OF 538 MUA IN 1980 AS A STARTING POINT AND OF INCREASING IT FOR 1981 AND 1982 BY THE SAME PERCENTAGE AS THE INCREASE IN THE COMMUNITY BUDGET OVERALL. THE BRITISH GOVERNMENT WAS HOWEVER PREPARED TO LOOK AT ALTERNATIVE FORMULAE. FOR EXAMPLE, IT MIGHT BE POSSIBLE TO START WITH 538 MUA FOR 1980, CALCULATE THE PROPORTION WHICH THIS REPRESENTED OF WHAT WOULD HAVE BEEN THE UNADJUSTED FIGURE FOR THE BRITISH BUDGETARY CONTRIBUTION FOR THAT YEAR, AND APPLY A SIMILAR PERCENTAGE REDUCTION FOR 1981 AND 1982.

8. SR COLOMBO RECOGNISED THAT THIS CONSTITUTED A NEW APPROACH AND EXPRESSED INTEREST. BUT HE DOUBTED WHETHER THE OTHER COUNTRIES WOULD BE PREPARED TO ACCEPT A PRECISELY DETERMINED FIGURE FOR A THIRD YEAR. LORD CARRINGTON SAID THAT NONETHELESS IT WAS WITH THIS IN MIND THAT THE BRITISH GOVERNMENT WAS PROPOSING A GENERAL FORMULA TO COVER THE PROBLEM. EVERYONE SEEMED TO RECOGNISE THAT SOME RESTRUCTURING OF THE COMMUNITY' EXPENDITURE WOULD BE NECESSARY IN ANY EVENT WITHIN THIS PERIOD. HE ASKED HOW SR COLOMBO INTENDED TO ORGANISE THE MEETING IN NAPLES. IF MONSIEUR FRANCOIS-PONCET AND HERR GENSCHER BEGAN BY SAYING SIMPLY THAT THEIR LUXEMBOURG OFFERS WERE WITHDRAWN HE WOULD BE OBLIGED HIMSELF TO SAY THAT THEY WERE IN ANY EVENT INADEQUATE. THIS WOULD NOT AUGER WELL FOR PROGRESS. MINISTERS COULD NOT NEGOTIATE THE DETAILS OF THE PROBLEM. IT WOULD BE NECESSARY TO SEND OFFICIALS AWAY AT SOME POINT TO WORK ON IT. SR COLOMBO SAID THAT HE ENVISAGED STARTING THE MEETING WITH MINISTERS ONLY PRESENT. AFTER THEY HAD DISCUSSED THE BUDGET PROBLEM THERE COULD THEN BE A BREAK WHILE THEY INSTRUCTED THEIR OFFICIALS WHO WOULD THEN MEET ELSEWHERE TO TAKE MATTERS FURTHER. IF NECESSARY, THERE MIGHT BE A MEETING WITH MINISTERS AND OFFICIALS PRESENT ON THE SUNDAY MORNING. LORD CARRINGTON AGREED THAT THIS SEEMED A SENSIBLE APPROACH.

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FM UKDEL NATO 141040Z MAY 80
TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE,
TELEGRAM NUMBER 229 OF 14 MAY 1980,
INFO PRIORITY BONN, PARIS, ROME, UKREP EC,
INFO ROUTINE COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, BRUSSELS.

COMMUNITY BUDGET.

1. THE SECRETARY OF STATE CALLED ON MR JENKINS ON 13 MAY. MR JENKINS SAID THAT THE OUTCOME OF THE LUXEMBOURG EUROPEAN COUNCIL HAD BEEN DISAPPOINTING. SR COSSIGA'S CHAIRMANSHIP HAD BEEN WELL-INTENTIONED BUT INEFFECTIVE. IT WAS A PITY THAT HE HAD NOT ADJOURNED THE MEETING AT AN EARLIER STAGE TO ALLOW FOR CONSULTATIONS. NONETHELESS, WHAT HAD BEEN AVAILABLE AT LUXEMBOURG WAS NOT A BAD OFFER. HE WONDERED WHETHER THE BRITISH GOVERNMENT WAS RIGHT TO INSIST ON A THREE YEAR PERIOD FOR A SOLUTION. THE DISADVANTAGE OF THREE YEARS WAS THAT IT WOULD BE NECESSARY TO NEGOTIATE ABOUT NEW ARRANGEMENTS IN THE IMMEDIATE RUN-UP TO THE NEXT BRITISH GENERAL ELECTION. BUT A FOUR YEAR SOLUTION WAS UNATTAINABLE AND IT MIGHT THEREFORE BE JUST AS ADVANTAGEOUS TO GO FOR TWO YEARS. ONCE PROVISION HAD BEEN MADE IN OTHER COUNTRIES TOWARD FINANCIAL PLANNING FOR A CONTRIBUTION TO THE SOLUTION OF THE BRITISH BUDGET PROBLEM IT SHOULD BE REASONABLY EASY TO CONTINUE THIS. THERE WAS AN ANALOGY WITH THE BRITISH PESC PROCEDURES: IT WAS FAR SIMPLER TO RETAIN SOMETHING ALREADY INCLUDED IN THE ESTIMATES FOR PREVIOUS YEARS THAN TO INTRODUCE SOMETHING NEW. MOREOVER IN THE MINDS OF OTHER COMMUNITY GOVERNMENTS THERE WAS A TRADE-OFF BETWEEN DURATION AND AMOUNT: A 3 YEAR PERIOD WOULD MEAN A SMALLER AMOUNT.

2. THE SECRETARY OF STATE SAID THAT HOWEVER LOGICAL THAT MIGHT SEEM, IN THE AFTERMATH OF THE LUXEMBOURG EUROPEAN COUNCIL, IT WAS NOT POLITICALLY ACCEPTABLE IN BRITAIN. MOREOVER THE EXPIRY OF A TWO YEAR PERIOD WOULD COINCIDE WITH THE TIME WHEN THE COMMUNITY WAS LIKELY TO COME UP AGAINST THE 1 PERCENT VAT CEILING. IT WOULD BE MUCH BETTER FOR THE COMMUNITY TO DEAL WITH THIS AS AN ISSUE IN ITS OWN RIGHT RATHER THAN LINKED TO THE BRITISH BUDGET PROBLEM.

3. THE SECRETARY OF STATE ADDED THAT MONSIEUR FRANCOIS-PONCET HAD SUGGESTED PRIVATELY THAT THE BRITISH GOVERNMENT OUGHT TO BE SATISFIED WITH A ONE YEAR SOLUTION COUPLED WITH AN UNDERTAKING THAT THE COMMUNITY'S FINANCIAL STRUCTURE SHOULD BE REORGANISED BECAUSE SUCH A REORGANISATION COULD BE ACHIEVED WITHIN A FEW WEEKS. MR JENKINS DOUBTED THIS: THE BENELUX COUNTRIES AND THE OTHER SMALLER MEMBERS WOULD BE VERY AGITATED BY THE PROSPECT OF ANY CHANGE. THE SECRETARY OF STATE AGREED. IN ANY EVENT, ANY REFERENCE TO SUCH A RE-ORGANISATION WOULD HAVE TO BE COUPLED WITH AN ASSURANCE THAT IF IT PROVED IMPOSSIBLE TO AGREE ON A NEW SYSTEM, ARRANGEMENTS FOR A LIMIT ON THE BRITISH CONTRIBUTION WOULD CONTINUE.

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4. THE SECRETARY OF STATE ALSO RAISED THE QUESTION OF THE COMMISSION'S SHEEPMEAT PROPOSALS. THE HEAVY INTERVENTION REGIME WHICH MR GUNDELACH SEEMED TO HAVE IN MIND WOULD CREATE A LAMB MOUNTAIN AND WOULD MEAN THAT LARGE QUANTITIES OF BRITISH LAMB WOULD GO INTO INTERVENTION IN FRANCE. THERE WOULD THEN BE THE PROBLEM OF ITS DISPOSAL AND PRESSURE FOR EXPORT RESTITUTIONS. SUCH A SYSTEM WAS ABSURD. IT WAS NOT JUST THAT IT WAS BAD FOR BRITAIN OR FOR NEW ZEALAND: IT WOULD BE BAD FOR THE WHOLE COMMUNITY. MR JENKINS SAID THAT HE SYMPATHISED WITH THIS VIEW. SOME DEGREE OF INTERVENTION WOULD BE NECESSARY, BUT HE SAW NO NEED FOR OTHER THAN A LIGHT REGIME. HE THOUGHT HOWEVER THAT MR GUNDELACH WAS SENSITIVE TO NEW ZEALAND'S CONCERNS.

5. FINALLY, MR JENKINS SAID THAT THE END OF MAY REPRESENTED A WATERSHED. THE OTHER MEMBERS OF THE COMMUNITY WOULD NEED TO DO SOMETHING ABOUT AGRICULTURAL PRICES AFTER THAT DATE. THE COMMISSION'S PRINCIPAL RESPONSIBILITY IN SUCH A SITUATION WOULD BE TO MAINTAIN THE COHESION OF THE COMMUNITY. HE IMPLIED THAT THE BRITISH GOVERNMENT COULD NOT COUNT ON THE COMMISSION TO OPPOSE UNORTHODOX ARRANGEMENTS. THE SECRETARY OF STATE COMMENTED THAT ANY BREACH OF THE LUXEMBOURG COMPROMISE ON THIS ISSUE WOULD HAVE SEVERE DOMESTIC POLITICAL REPERCUSSIONS IN BRITAIN.

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Treasury Chambers, Parliament Street, SW1P 3AG

14 May 1980

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and Commonwealth
Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Dear Peter

EUROPEAN COMMUNITY BUDGET: ADDITIONAL TWELFTHS FOR FEOGA

We need to take a decision on a Commission proposal to increase the authority for expenditure from the Community Budget this year.

Background

Until a 1980 Budget has been adopted, Community expenditure is governed by Article 204 of the Treaty of Rome which provides that expenditure each month under each Chapter of the Budget shall be limited to one twelfth of the appropriations in the corresponding Chapter of either the 1979 Budget or the 1980 draft Budget, whichever is the less. There is also provision that the Council acting by qualified majority may authorise expenditure of additional twelfths in any month.

The European Parliament consider that, whatever aggregate expenditure for a year under this procedure cannot exceed twelve twelfths of the relevant appropriations and that transfers of appropriations from one chapter of the Budget to another are not permissible. The Commission accept that expenditure cannot exceed twelve twelfths but do not accept that transfers are not possible. The Council has not taken a formal position on either point but has, so far, rejected the proposals for transfers put forward by the Commission. The UK is on record as rejecting any expenditure in excess of twelve twelfths.

The twelfths regime has, so far, created very few difficulties for the operation of the Community. It has only been necessary to make additional twelfths available to cover rent and insurance of buildings and to provide for emergency aid to Afghan refugees. Requests from the Economic and Social Committee, to provide for meetings of the Committee, and from the Audit Court to cover mission expenses, have been refused.

The large sums of money arise on the FEOGA Guarantee Section of the Budget from which the Commission pre-fund Member State's intervention agencies (in the UK the Intervention Board for Agricultural Produce, IBAP). In April, the Commission decided, without warning, that they would only provide 20% of the advances requested by Member States for May. This followed advice by DG XX that it would be imprudent to continue with the method which had been used to assess the appropriations available. The Finance Council agreed on 21 April that the Commission should make advances for May on the same basis as hitherto, if necessary by provision of additional twelfths, and that the Commission should produce a report on the problem for the Finance Council. The position at present is that 5152 MEUA (half the provision available for the year) has already been advanced to Member States.

The Commission's latest proposal

The next decisions for Member States will be in respect of advances for June. The Commission have now put to the Council a request for additional twelfths; they seek varying numbers of additional twelfths, between 1 and 5, for different commodities, but the Commission's aim is to ensure provision adequate to last until the end of August. The Commission have also requested transfers between Chapters within FEOGA with the same aim. The Commission proposal is being discussed initially in the Council's Budget Committee (where UK representatives will maintain a reserved position), and is likely to come forward to COREPER next week.

We need to consider whether we could increase the pressure on the other member states to solve our budget problem by opposing the request for additional twelfths. It is likely that the other Member States will support the request if the Commission satisfy the Budget Committee and COREPER that the needs of intervention agencies cannot be met in full without additional provision. The Treaty lays down that decisions to make additional twelfths available should be taken by qualified majority. We would, therefore, have to invoke the Luxembourg compromise (and this would have to be accepted as valid by others) to block a decision. On balance I feel that an attempt to do this would be ill-advised. It would be difficult to argue that provision of additional twelfths treatened a major UK interest, and others' refusal to recognise it might jeopardise our chances of invoking it successfully, if we wanted to do so, on the establishment of a Draft Budget for 1980 later in the year.

The restrictions on the availability of funds for the Guarantee Section imposed by the twelfths regime do, however, provide an incentive to contain expenditure; I think that we should, therefore, try to ensure that at this stage only sufficient funds to cover June FEOGA advances are made available. This should be generally agreed by Member States since it would be in line with the policy so far followed by the Council. We should also continue to resist transfers between Chapters for payments; we would expect to be supported in this by other Member States.

I should therefore be grateful to know, by not later than Monday next, May 19, whether you and other colleagues can agree to UKREP being instructed in the sense of paragraphs 7 and 8 above for the discussion in COREPER.

In the absence of a depositable document, I am arranging for the Treasury to send an un-numbered Explanatory Memorandum on the Commission's proposals to Parliament for examination by the Scrutiny Committee. It is however unlikely that they will be able to examine it before the matter comes before COREPER (and possibly a subsequent Council as an 'A' point) and I propose to write to the Chairmen of the Scrutiny Committees to explain this. It might be necessary subsequently to give an explanation to the House.

I am sending copies of this letter to the Prime Minister, other members of OD(E) and the Secretary to the Cabinet.

Yours ever
Nigel

NIGEL LAWSON

GRS 71Ø CONFIDENTIAL No. 10

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FM PARIS 131452Z MAY 1Ø

TO PRIORITY FCO

TELEGRAM NUMBER 435 OF 13 MAY 198Ø

AND TO PRIORITY UKREP BRUSSELS, ROME AND BONN

INFO SAVING TO BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG AND THE HAGUE

Read in full.

COMMUNITY BUDGET PROBLEM

1. WHEN I CALLED ON THE SECRETARY GENERAL OF THE ELYSEE TODAY HE BEGAN BY STRIKING A SOMEWHAT DESPAIRING NOTE: HOW COULD WE GET THE COMMUNITY PROBLEM SOLVED THIS MONTH? THE FRENCH GOVERNMENT WAS FINDING ITSELF ENGAGED IN A RUNNING BATTLE WITH THE FARMERS. THE PRICES PROBLEM WOULD HAVE TO BE SOLVED ONE WAY OR ANOTHER AT THE END OF THE MONTH. THE FRENCH GOVERNMENT WAS PREPARING POSSIBLE MEASURES OF INDEPENDENT ACTION WHICH COULD BE INTRODUCED ON A PROVISIONAL BASIS PENDING AN EVENTUAL COMMUNITY SOLUTION (IF ONE COULD EVENTUALLY BE REACHED).

2. I TOLD WAHL THAT I THOUGHT A SOLUTION OUGHT TO BE REACHABLE DURING MAY. THE GAP AT THE END OF THE LUXEMBOURG SUMMIT HAD BEEN SMALL. IT WAS A QUESTION OF FINDING THE RIGHT BALANCE FOR BOTH THE RELIEF FOR BRITAIN AND ITS DURATION. IT WAS DIFFICULT TO UNDERSTAND WHY AN ARRANGEMENT FOR ONE OR TWO YEARS COULD BE REGARDED AS COMMUNAUTAIRE WHILE AN ARRANGEMENT FOR THREE YEARS WAS DECLARED NOT TO BE. WAHL INSISTED THAT CHANCELLOR SCHMIDT'S FINAL OFFER, AUGMENTED IN DURATION BY PRESIDENT GISCARD'S PROPOSAL, HAD REACHED EXTREMES OF GENEROSITY. I SUGGESTED THAT IT WAS NOT HELPFUL TO PUT IT IN THESE TERMS. THERE WERE CONCESSIONS FROM ALL SIDES. IT SHOULD BE SIMPLY A QUESTION OF CONTINUING TO TALK UNTIL THE LAST DETAILS OF A DEAL WERE COMPLETED.

3. WAHL SAID THAT THE FRENCH GOVERNMENT AGREED THAT THE INFORMAL MEETING OF FOREIGN MINISTERS AT NAPLES ON 17 AND 18 MAY OFFERED THE BEST CHANCE OF MAKING PROGRESS. I MADE THE POINT THAT THE WORK OF THE MINISTERS MIGHT PROSPER BETTER IF THEY WERE ACCOMPANIED BY MEMBERS OF THE RUGGIERO GROUP RATHER THAN BY MEMBERS OF COREPER. HE NOTED THAT THIS WOULD MEAN THAT PAYE SHOULD BE PRESENT. HE PERSONALLY FOUND NO DIFFICULTY ABOUT THIS.

4. I MENTIONED TO WAHL THAT THERE MIGHT BE REAL DIFFICULTY ON THE ~~SHEEP MEAT QUESTI~~ON, EVEN IF THE DIFFICULTIES OVER THE BUDGET AND PRICES QUESTIONS WERE CLEARED OUT OF THE WAY. THE SHEEP MEAT PROPOSAL WHICH THE FRENCH HAD CONTRIVED TO GET ON TO TABLE CONTAINED SOME HIGHLY UNDESIRABLE ELEMENTS AND IT WAS DIFFICULT TO SEE HOW A SOLUTION COULD BE REACHED UNLESS THIS COULD BE MODIFIED. WAHL WAS INCLINED TO TRY TO SWEEP THIS ASIDE AS ANOTHER EXAMPLE OF BRITISH INABILITY EVER TO ACCEPT A COMMUNITY SOLUTION: BUT I SUGGESTED THAT IT WOULD BE BETTER

TO AVOID DEBATING POINTS OF THAT SORT AND SIMPLY TO CONCENTRATE ON REACHING A SOLUTION WHICH WAS PRACTICAL. WAHL SAID HE WOULD DRAW MONSIEUR FRANCOIS-PONCET'S ATTENTION TO THIS SHEEP MEAT POINT BEFORE THE NAPLES MEETING.

5. WAHL WAS INCLINED TO MAKE MUCH OF CHANCELLOR SCHMIDT'S ANGER AT THE END OF THE LUXEMBOURG MEETING. I SAID THAT THERE WERE MORE THAN ONE OR TWO PEOPLE WHO WERE ENTITLED TO FEEL ANGRY, BUT I COULD NOT SEE HOW DISCUSSION ON THOSE LINES COULD TAKE MATTERS FORWARD. WHAT WAS NEEDED WAS CONTINUED COOL NEGOTIATION. WAHL DID NOT DEMUR.

6. HE CLAIMED THAT PRESIDENT GISCARD HAD BEEN DISTURBED AT THE END OF THE LUXEMBOURG MEETING BY A HINT DROPPED BY THE PRIME MINISTER THAT THERE WERE OTHER MATTERS WHICH WOULD HAVE TO BE CONSIDERED BESIDES THE BUDGET. WAS THIS A REFERENCE TO SOME NEW PROBLEM FOR RENEGOTIATION? I SAID THAT I WAS NOT BRIEFED TO DISCUSS THIS BUT I WAS SURE THAT THERE WAS NO NEED TO READ FUTURE DIFFICULTIES INTO A REMARK WHICH I THOUGHT MUST HAVE RELATED TO MATTERS DISCUSSED AT LUXEMBOURG. I HAD MYSELF POINTED OUT TO HIM THE VERY REAL DIFFICULTY WHICH WAS LIKELY TO ARISE OVER SHEEP MEAT IF THE FRENCH POSITION DID NOT BECOME MORE FLEXIBLE. THERE WAS NO REASON TO DOUBT THE WILL ON THE BRITISH SIDE TO REACH A DEFINITIVE CONCLUSION NOW.

7. IN GENERAL, WAHL SEEMED TO BE AT PAINS TO REGISTER A MODERATE TEMPERATURE IN THE ELYSEE.. HE WAS SOLICITOUS ABOUT THE PROPOSALS FOR A VISIT TO PARIS BY HER ROYAL HIGHNESS THE PRINCESS ANNE IN JUNE AND A VISIT TO FRANCE BY HRH THE PRINCE OF WALES IN JULY, AND HE WAS MATTER OF FACT ABOUT THE FRANCO/BRITISH COUNCIL'S COLLOQUY AT BORDEAUX IN SEPTEMBER. AS FAR AS HE WAS CONCERNED THE ONUS FOR SETTLING OUTSTANDING DIFFICULTIES WAS ON BRITAIN: BUT HIS ATTITUDE WAS THAT OF AN INDULGENT RATHER THAN A SEVERE BEAK.

FCO PLEASE PASS SAVING TO OTHER EC POSTS.

HIBBERT.

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[REPEATED AS REQUESTED]

THIS TELEGRAM WAS NOT ADVANCED

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TELEGRAM NUMBER 434 OF 13 MAY 1980
INFO ROUTINE BONN ROME UKREP BRUSSELS
INFO SAVING BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG THE HAGUE

COMMUNITY BUDGET: FRENCH GOVERNMENT'S POSITION

1. THE DEVELOPMENTS REPORTED IN MY SAVING TEL NO 62 AND MIPT HAVE A CLOSE BEARING ON THE FRENCH GOVERNMENT'S APPROACH TO THE NEXT PHASE OF THE NEGOTIATIONS ON THE COMMUNITY BUDGET.
2. AT THE PRESENT TIME THE MESSAGE WHICH THIS EMBASSY IS CONSISTENTLY RECEIVING FROM FRENCH OFFICIALS IS THAT THE FRENCH GOVERNMENT IS TAKING CARE NOT TO EXACERBATE THE SITUATION FOLLOWING THE BREAKDOWN AT THE LUXEMBOURG COUNCIL. THERE IS A CERTAIN TRUTH IN THIS; BUT THE FRENCH ARE EQUALLY NOT DOING ANYTHING TO EASE MATTERS. SINCE THE EUROPEAN COUNCIL PRESIDENT GISCARD AND HIS MINISTERS HAVE MAINTAINED THEIR UNCOMPROMISING DEMAND ON AGRICULTURAL PRICES AND HAVE GIVEN NO HINT OF ANY POSSIBLE CONCESSION ON THE AMOUNT/DURATION EQUATION IN THE BUDGET PROBLEM.
3. THERE IS A DANGER THAT THE FRENCH GOVERNMENT HAS NOT LEFT ITSELF ENOUGH ROOM FOR MANOEUVRE IN THE NEXT THREE WEEKS, BEFORE REACHING THE END-OF-MAY DEADLINE WHICH IT HAS FIXED FOR ITSELF. THIS DEADLINE HAS ALREADY BEEN FIRMED UP IN SUCH A WAY THAT IT APPEARS TO CONSTITUTE A POINT OF NO RETURN BEYOND WHICH NATIONAL MEASURES OF PRICE FIXING AND SUPPORT WILL HAVE TO BE IMPLEMENTED, NO DOUBT ON A NOMINALLY TRANSITORY AND INTERIM BASIS, IF THE COMMUNITY PRICE PACKAGE HAS NOT BEEN AGREED BY THEN.
4. A SETTLEMENT, RATHER THAN A BREAKDOWN, WOULD APPEAR TO BE IN THE INTEREST OF THE FRENCH GOVERNMENT. M BARRE, WHO HAS BEEN ENTRUSTED WITH THE RESPONSIBILITY OF PRODUCING IDEAS ON NATIONAL AGRICULTURAL MEASURES, WILL NOT FIND IT EASY TO PUT FORWARD PROPOSALS WHICH ARE NOT MANIFESTLY IN BREACH OF COMMUNITY RULES. THE COST OF THE MEASURES WOULD BE AN ADDITIONAL CHARGE ON THE FRENCH NATIONAL BUDGET AT A TIME WHEN THE GOVERNMENT IS TRYING TO LIMIT PUBLIC EXPENDITURE. IT WOULD BE DIFFICULT TO BE SURE OF RECOUPING IT FROM THE COMMUNITY BUDGET IN DUE COURSE. THE CHANGE TO NATIONAL INSTEAD OF COMMUNITY AIDS WOULD BE A BIG UPSET OF PRINCIPLE FOR FRANCE. IT WOULD REMAIN TO BE SEEN WHETHER UNILATERAL ACTION BY FRANCE WOULD BE ACQUIESCED IN OR EVEN ENDORSED BY OTHER MEMBER STATES.

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5. THERE IS NOTHING IN THE FRENCH GOVERNMENT'S ATTITUDE WHICH NEED DISCOURAGE THE BRITISH AND OTHER GOVERNMENTS FROM VIGOROUSLY PURSUING A COMPREHENSIVE SETTLEMENT. THE DIFFICULTIES ARE REAL ENOUGH, BUT THE DIFFICULTIES IF A SOLUTION IS NOT FOUND DURING MAY WILL BE EVEN GREATER. BEYOND THE END OF MAY THERE IS A POTENTIAL RISK THAT THE FRENCH COULD BECOME PRISONERS OF THEIR OWN TACTICS AND BE DRAWN BY DOMESTIC PRESSURES, WHICH THEY THEMSELVES HAVE DONE LITTLE TO DISCOURAGE, DOWN A COURSE WHICH COULD OPEN UP DEEP FISSURES IN THE COMMUNITY. AS SEEN FROM HERE, IT SEEMS PROBABLE THAT THE CHANCES OF PREVAILING ON THE FRENCH GOVERNMENT TO REACH A SETTLEMENT WILL BE AT THEIR MAXIMUM DURING THE NEXT THREE WEEKS AND THEREAFTER WOULD BE IN DANGER OF LOSING THEMSELVES IN A MUCH WIDER TURBULENCE.

FCO PLEASE PASS SAVING BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG THE HAGUE

HIBBERT.

[REPEATED AS REQUESTED]
[THIS TELEGRAM WAS NOT ADVANCED]

FRAME AGRICULTURE
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GRS 420
FM PARIS 131117Z MAY 80
TO PRIORITY FCO
TELEGRAM NUMBER 433 OF 13 MAY 1980
INFO ROUTINE TO UKREP BRUSSELS ROME AND BONN
INFO SAVING TO BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG AND THE HAGUE

ADVANCE COPY

Mr Alexander

2 tels. Read in full

MY TEL NO 62 (SAVING): COMMUNITY AFFAIRS: THE FRENCH POLITICAL BACKGROUND

1. THE GOVERNMENT'S DIFFICULTIES WITH THE AGRICULTURAL SECTOR COME AT A TIME WHEN THERE ARE SIGNS OF SOME SLIPPAGE IN PRESIDENT GISCARD'S POPULARITY IN THE COUNTRY AT LARGE.

2. RECENT PUBLIC OPINION POLLS (FOR WHAT THEY ARE WORTH) SHOW THAT THE PROPORTION OF THOSE GIVING A FAVOURABLE VERDICT ON M GISCARD AS PRESIDENT HAS DROPPED ALMOST TO THE LOWEST LEVEL SINCE HIS ELECTION IN 1974. MOST NOTICEABLE IS THE DECLINE IN PRESIDENT GISCARD'S RATING AMONG AGRICULTURAL VOTERS. ON THE OTHER HAND DISSATISFACTION WITH THE GOVERNMENT'S ECONOMIC POLICIES DOES NOT PREVENT A MAJORITY OF FRENCH VOTERS FROM REGARDING M GISCARD AS AN EFFECTIVE PRESIDENT. HIS FOREIGN POLICIES ARE GENERALLY POPULAR, WITH THE HIGHEST MARKS BEING GIVEN TO FRENCH POLICY TOWARDS ''THE CONSTRUCTION OF EUROPE''.

3. PRESIDENT GISCARD AND HIS COLLEAGUES HAVE REACTED FIRMLY TO THE DIFFICULT PHASE THROUGH WHICH THEY ARE PASSING. REVIEWING HIS FIRST SIX YEARS IN OFFICE IN AN INTERVIEW PUBLISHED AT THE WEEKEND, THE PRESIDENT SAID THAT HE REGARDED HIMSELF AS HAVING ACHIEVED THREE QUARTERS OF THE BJECTIVES HE HAD SET HIMSELF IN 1974. INSOFAR AS THERE WERE ECONOMIC DIFFICULTIES, THESE RESULTED FUNDAMENTALLY FROM EXTERNAL FACTORS OVER WHICH THE GOVERNMENT HAD NO CONTROL. HE WAS CONFIDENT THAT FRANCE COULD ''COPE AS WELL AS THOSE WHO COPE MOST EFFECTIVELY'' WITH THE CHANGING CONDITIONS IN THE WORLD ECONOMY. M BARRE AND M MONORY HAVE ALSO ROBUSTLY DEFENDED THE GOVERNMENT'S ECONOMIC RECORD AND HAVE INSISTED THAT THE GOVERNMENT IS GOING TO STAY ON ITS CHOSEN ECONOMIC COURSE. BY STRONGLY EMPHASISING THE IMPORTANCE OF THE FRANCO-GERMAN RELATIONSHIP AS THE BASIS OF FRANCE'S EUROPEAN POLICIES IN A SPEECH BEFORE THE CONGRESS ORGANISED BY THE EUROPEAN MOVEMENT ON 9 MAY, M BARRE INDICATED THAT ON EUROPE AS IN EVERYTHING ELSE THE GOVERNMENT WAS GOING TO HOLD FIRMLY TO EXISTING POLICIES.

4. THE RESOLUTE IMAGE, THE CLAIM TO BE SUCCESSFUL AND THE STRATEGY OF ''NO CHANGE'' WHICH GISCARD IS CLEARLY DEPLOYING AS HE STEERS TOWARDS THE ELECTORAL CHALLENGE AHEAD IMPOSES CERTAIN LIMITS ON HIS OPTIONS IN POLITICAL ISSUES BOTH INTERNALLY AND EXTERNALLY IN THE IMMEDIATE FUTURE.
FOR FURTHER COMMENT PLEASE SEE MIFT.

FCO PLEASE PASS SAVING ADDRESSEES.

HIBBERT

[REPEATED AS REQUESTED]
[THIS TELEGRAM WAS NOT ADVANCED]

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FILE

JS

Euro Pol

10 DOWNING STREET

From the Private Secretary

13 May 1980

cc/ master set.
Euro Pol: CAP Pt 5.
Fishing Industry Policy Pt 2.

Dear Garth,

SHEEPMEAT, FISHERIES AND THE COMMUNITY BUDGET

As you know, the Minister of Agriculture came to see the Prime Minister briefly this afternoon to report on the outcome of his meeting with Mr. Gundelach earlier in the day.

Mr. Walker said that, according to Mr. Gundelach, the Commission as a whole were optimistic that a solution could be reached to the problem of our budgetary contribution. The only member of the Commission who was gloomy was Mr. Jenkins. Mr. Walker said that he had made it plain to Mr. Gundelach that HMG would not be prepared to settle the question of our budgetary contribution unless the solution covered a three-year period. He had added that it was his personal judgement that for the third year it would not be necessary to settle a precise figure provided there was an agreed principle from which the figure for our contribution could be deduced. Mr. Gundelach had said that he thought that a third year was obtainable.

Sheepmeat

On sheepmeat, Mr. Gundelach had said that it would be essential for France to have some form of intervention. The Commission was preparing a sheepmeat regulation based on very limited intervention and no export rebates. Mr. Gundelach had admitted that the line he had taken in Luxembourg on the necessary connection between intervention and export rebates was wrong. He would be willing to confirm in writing that the proposed regulation would not involve export rebates. Mr. Walker told the Prime Minister that it would be possible to set up a sheepmeat regime in which there was some intervention in France but none in this country. Here there would be a premium system wholly financed by the Community. In effect, this would mean that in this country we had a deficiency payment system.

As regards the attitude of New Zealand, Mr. Gundelach had said that he would not finalise a sheepmeat regulation until

/he was

RH

he was assured of the agreement of the New Zealand authorities. When seeing Mr. Talboys yesterday, Mr. Gundelach had promised that he would negotiate a detailed agreement with New Zealand. Mr. Walker said that he intended to write to Mr. Gundelach after his own meeting with Mr. Talboys, with a view to securing from Mr. Gundelach, in writing, assurances both about New Zealand and export rebates. The Prime Minister made it clear that she would wish to be certain that the interests of New Zealand were not damaged by any sheepmeat agreement. She said that she would like to see Mr. Talboys during his visit to London at the end of this week.

Fish

Mr. Walker said that Mr. Gundelach had made it clear that he was opposed to a meeting of the Fisheries Council before the end of the month. He disagreed with his deputy, Mr. Gallagher, who had been seeking a meeting both to discuss the guidelines text, which had been under negotiation in Luxembourg, and quotas. The German officials dealing with fisheries problems were also doubtful about the utility of a meeting of the Fisheries Council but Chancellor Schmidt was insisting on a meeting in order that a text on fish could be agreed. Mr. Walker said that he agreed with the Commission in thinking that an unsuccessful meeting of the Fisheries Council would have a very damaging effect on the prospects for the European Council a fortnight later.

Mr. Walker said that he therefore saw advantage in trying to arrange a bilateral meeting between the UK and the Federal Republic in order to agree a guidelines text. He suggested that the Prime Minister should propose to Chancellor Schmidt that Mr. Buchanan-Smith should visit Bonn tomorrow or the day after to try to work out a test with his opposite number, Mr. Rohr. Once a text was agreed, much of the reason for holding a Fisheries Council would disappear. Mr. Gundelach had made it plain that he would be delighted to see it cancelled. The Danes did not want one. As regards the prospects for agreeing a text with the Germans, Mr. Walker said that German fishing interests were not in conflict with ours. They were mainly interested in distant water fishing and were not seeking access to our coastal waters.

The Prime Minister agreed that an attempt should be made to set up such a meeting. But she said that she would prefer the arrangements to be made between her Private Office and that of Chancellor Schmidt. She laid down no precise guidelines for Mr. Buchanan-Smith's negotiation but she will of course wish to approve whatever text emerges. She was prepared to see in any such text a general reference to the principles on which a common fisheries policy should be based. However, she did not wish there to be any explicit reference to "equal access". The right of British fishermen to have preferential access had to be preserved.

/ After Mr. Walker's

After Mr. Walker's departure, I spoke to Herr von Staden in Bonn. I told him that we were concerned about the state of preparations for the Fisheries Council. There would be considerable risks in holding such a meeting if it was inadequately prepared. One of the principal subjects at such a meeting was likely to be the guidelines text for the negotiation of a common fisheries policy. The principal difficulties in the text seemed, at present, to lie between London and Bonn. The Prime Minister therefore considered it might be helpful for Mr. Buchanan-Smith to come to the Federal Republic tomorrow or the next day in order to see whether he and Mr. Rohr could agree on a guidelines text. If the meeting was successful, the need for a Fisheries Council at the end of the month could be reviewed. If there was an agreed text, it might be shown to other colleagues at the Foreign Ministers' meeting in Naples at the weekend.

As you know, Herr von Staden rang back to say that Mr. Rohr thought that a meeting would be a good idea. Subject to the views of Mr. Ertl, he would be getting in touch with Mr. Buchanan-Smith tonight or tomorrow morning to make the arrangements for a meeting. You agreed that we should not seek publicity for the meeting. You also agreed that Mr. Michael Franklin should be included in Mr. Buchanan-Smith's party.

I am sending copies of this letter to George Walden (FCO), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Garth Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

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Euro Pol. VLB

file

10 DOWNING STREET

From the Private Secretary

13 May 1980

Community Budget

The Prime Minister has seen the Chancellor of the Exchequer's minute to her of 12 May on this subject. In considering it she concentrated on the table in paragraph 7 of the minute.

The Prime Minister agrees that the approach summarised in row 3 of that table is acceptable. Along with the original UK proposal, summarised in row 2, it may be used by the Foreign and Commonwealth Secretary in his discussions tomorrow with Signor Colombo. The Prime Minister does not accept the figures in the final column of the table since they appear to be based on the assumption that the 1 per cent VAT ceiling will be breached. The Prime Minister does not like the arbitrary figures set out in row 4 of the table.

The Prime Minister noted that if we pursue the constant percentage reduction approach, we need not get involved in a discussion of the figures for our net contribution in 1981 and 1982. Our proposal would simply be that once the percentage relationship between a contribution of 538 meua and our unadjusted net contribution for 1980 had been established, that same percentage would be applied to our unadjusted net contribution at the end of each of the next two years to establish our actual contribution. However, the Prime Minister also indicated, taking the figures in the Chancellor of the Exchequer's minute, that she might be prepared in due course to envisage a percentage reduction of, say, 72.5 per cent instead of one of 73.5 per cent in our unadjusted net contribution for this year.

I am sending copies of this letter to George Walden (F.C.O.) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

John Wiggins, Esq.,
H.M. Treasury.

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10 DOWNING STREET

From the Press Secretary

MR. FRANKLIN

cc. Mr. Alexander
Mr. Prescott
Mr. Fenn
David Colvin, UK Rep.

Rehabilitating EEC in UK

1. I have taken note of the correspondence on this matter and would hope to have an early meeting at an Information Officer level to clarify our minds before seeking to discuss the problem with you.

2. In the meantime, the following confidential Gallup material may be of interest - and show you what we are up against. There has been a formidable swing against the EEC since 1975, though more people think we are better off in from the point of view of our voice in international affairs and our defence.

3. It will be an uphill struggle to rehabilitate the EEC, even if the Budget issue is settled on acceptable terms, unless there is a move to reform CAP, reduce the size of mountains and drain lakes and to stop flogging butter to Russia.

B. INGHAM

12 May, 1980

Table 10 : The Common Market

Questions and answers	Today	Comparison
1 I am going to read out a number of things and I would like you to tell me whether you think they would be better if we stay in the Common Market or better if we leave the Common Market?		(i)
a) The price we pay for food?		
Better in	12	32
Better out	68	34
Same	11	21
Don't know	9	12
b) The price we pay for other goods?		
Better in	15	35
Better out	55	27
Same	17	19
Don't know	13	19
c) The level of wages?		
Better in	18	42
Better out	34	18
Same	26	19
Don't know	22	21
d) The level of taxation?		
Better in	13	23
Better out	37	22
Same	28	25
Don't know	22	30
e) The level of employment-that is, the number of jobs available?		
Better in	19	41
Better out	35	24
Same	29	17
Don't know	17	18
f) The general standard of living?		
Better in	20	43
Better out	47	26
Same	21	17
Don't know	11	14

Questions and answers	Today	Comparison
2 Do you think these things would be better in the Common Market or better if we left the Common Market?		(i)
a) Britain's relationship with the Commonwealth?		
Better in	21	39
Better out	54	29
Same	13	21
Don't know	12	11
b) Britain's position in the world?		
Better in	33	52
Better out	31	20
Same	22	15
Don't know	14	12
c) Britain's relationship with the United States and Russia?		
Better in	23	34
Better out	27	19
Same	32	26
Don't know	18	21
d) Britain's voice in international affairs?		
Better in	34	48
Better out	26	18
Same	25	19
Don't know	15	14
e) Britain's defence?		
Better in	39	49
Better out	23	14
Same	21	19
Don't know	17	19
f) The future for British children?		
Better in	29	56
Better out	39	22
Same	14	6
Don't know	7	16

(2-8.4.80)

(i) May/June 1975

Table 10: The Common Market (contd)

Questions and answers	Today	Comparison
1 Do you think that the British economy would be stronger in the Common Market or stronger out of the Common Market?		(i)
In Common Market	22	51
Out of Common Market	56	25
No difference	8	12
Don't know	14	12
2 Here is a list of members of the Common Market. Which, if any, of them do you think has the most influence or are they all equal?		
France	43	34
Germany	36	31
Belgium	1	5
Britain	1	1
Denmark	1	1
Luxembourg	1	1
Holland	1	ø
Ireland	1	ø
Italy	1	ø
All equal	8	14
Don't know	10	16
3 And which, if any, of them do you think will have the most influence in 5 years time?		
Germany	42	30
France	23	15
Britain	5	11
Belgium	1	1
Italy	1	1
Luxembourg	1	ø
Denmark	ø	ø
Holland	ø	ø
Ireland	ø	ø
All equal	5	9
Don't know	25	33

Questions and answers	Today	Comparison
4 Which, if any, of these countries do you think has the strongest economy at present?		(i)
Germany	68	58
France	6	6
Denmark	2	2
Holland	2	2
Belgium	1	4
Luxembourg	1	1
Britain	1	ø
Ireland	ø	ø
Italy	ø	ø
All equal	2	2
Don't know	17	25
5 And which, if any, of them do you think will have the strongest economy in 5 years time?		
Germany	56	38
France	6	6
Britain	5	8
Denmark	1	1
Holland	1	1
Ireland	1	ø
Belgium	ø	1
Italy	ø	ø
Luxembourg	ø	ø
All equal	3	4
Don't know	28	41
6 Do you think that the part of the country where you live would be better off in the Common Market or out of Common Market?		
In Common Market	19	40
Out of Common Market	52	24
No difference	12	23
Don't know	16	13

(2-8.4.80)

(i) June 1975

10 : The Common Market (contd.):

Questions and answers	Today	Comparison	Questions and answers	Today	Comparison
1 Generally speaking, do you think that British membership of the Common Market is a good thing, a bad thing, or neither good or bad?		(i)			
Good	22	21			
Bad	57	55			
Neither	13	15			
Don't know	8	9			
2 If you were told tomorrow that the European Community (Common Market) had been scrapped, would you be very sorry about it, indifferent, or relieved?					
Very sorry	14	16			
Indifferent	27	26			
Relieved	51	51			
Don't know	8	7			
3 Do you think that the Common Market is united or divided at the present time?					
United	8	7			
Divided	78	84			
Don't know	14	10			
4 If you could vote on whether we stayed in the Common Market or left it, how would you vote?					
Stay in	27				
Leave	59				
Wouldn't vote	7	NA			
Don't know	7				
2-8.4.80)					

i) November 1979

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In PM's letter folder on 13/5. cc Press Office

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

PRIME MINISTER

COMMUNITY BUDGET

... I attach the Treasury paper on which I spoke earlier today which sets out the latest estimates of the effects on our net contribution of the proposals discussed at Luxembourg.

2. We are all agreed on the need to secure a 3 year settlement with a suitable review clause. A 2 year deal would be difficult to present as an advance on what was offered at Luxembourg.

3. The Treasury paper brings out the importance of securing a settlement that determines the size of our net contribution. Once that is fixed, we are protected from increases due to inflation and the growth of the Community Budget. The importance of this point can be illustrated by developments since Dublin. We have agreed to negotiate on the basis of Commission estimates of our net contribution on an 'importer benefits' basis. The Commission document that was discussed at Luxembourg estimated this as 1683 mua for 1980 and the Commission has subsequently said that the price package and the higher trend of agricultural expenditure would increase that figure by something

/like 100. But

like 100. But there is now no reason to suppose that there will in fact be negative UK MCAs in 1980 to justify the reallocation of the 130 meua that explained the difference between the Commission's importer benefits figure (1683) and their exporter benefits figure (1813). There are also one or two other ways in which the Treasury think that the Commission's estimates may be understated. As a result of all these factors, the Treasury's best estimate is that our net contribution before adjustment in 1980 will be over two billion mua.

4. It would not of course be sensible to tell the other countries that we are convinced that the Commission estimates are too low. The larger our net contribution turns out to be, the higher the cost to the other member states of the refund needed to bring it down to the figure agreed.

5. For future years it may be advantageous, at some stage in the negotiations, to show some flexibility, on the method. We must, of course, repeat our willingness to index 538 in line with the increase in the Community Budget. But, if we conceded any increase in the 538, that increase would also be indexed and the resulting figures for 1981 and 1982 could rise quite high. A more favourable formula in these circumstances would be one derived from a suggestion made by the Germans in Luxembourg and referred to in paragraph 6 of the attached paper. This would be as

/follows. Our

follows. Our net contribution would be decided for 1980. The resulting refund would then be calculated as a percentage of the net contribution that we would have made without it. In 1981 and 1982 our unadjusted net contribution would then be reduced by the same percentage.

6. A third possibility would be to set arbitrary figures for 1981 and 1982 (just as 538 was arbitrarily chosen for 1980). We might perhaps offer, if we could not do better, 849 as our net contribution in 1982. This is the same figure as the Commission's estimate of our net contribution in 1979 and it was at one stage suggested by the French as the appropriate net contribution for 1980. (By 1982 it would of course be appreciably smaller in real terms than that sum was in either 1979 or 1980).

7. The Treasury's estimates of the effects on our net contribution of the three formulae mentioned above are set out in the table below. They are based on realistic assumptions and not, of course, on the figures used in negotiations. The figures shown for 1982 are highly speculative because of the difficulty of making sensible assumptions about what will happen when the Community hits the 1% VAT ceiling as it certainly will do by 1982. (This point is explained in paragraph 11 of the attached paper). But the table does at least give an indication of what is at stake for us:-

/1980 1981 1982

		1980	1981	1982
(1)	UK net contribution before adjustment	2,027	2,352	2,715
(2)	UK proposal at Luxembourg	538	673	828
(3)	Constant percentage reduction (538 implies 73½% reduction on 2,027)	538	624	719
(4)	Arbitrary figures	538	700	849
(5)	Line (2) starting at 575	575	719	885
(6)	Line (3) starting at 575 (which implies 71½% reduction on 2,027)	575	670	774

8. I take this opportunity to record three more detailed comments on this subject. First, we cannot favour the French idea that the review at the end of our settlement should 'cover limits to the net benefits of the above average GNP countries'. That seems likely to antagonise the Danes and the Benelux

/countries and

countries and it seems much better to let their irritation be directed at the French rather than at us.

9. Second, it is possible that during this month's negotiations someone will repeat the suggestion to drop the use of the amended Financial Mechanism and an Article 235 Regulation, and substitute a simple provision determining our net contribution for 1980 etc. If so, we should certainly follow up the opportunity. We should be spared a major bureaucratic effort as well as avoiding risks of delay or shortfall in our refunds. Moreover, such a simple provision would move us away from the test of 85% of average Community GNP per head in the Financial Mechanism, on which we could be at risk if sterling continued strong relative to other Community currencies.

10. Third, when we announce the settlement, we shall need to take precuations to ensure that the net contribution of 538 mua in 1980 is not subsequently attacked as misleading by critics at home who discover that the 538 does not include our contribution to unallocated expenditure (mainly aid financed from the Community Budget) estimated at about 160 mua in 1980. It would not be wise to jeopardise our chances of securing confirmation of the 538 by seeking to change the basis of the figuring in the negotiations; but we shall need to make it clear when announcing the decision at home precisely what the relevant definition of 'net contribution' is.

/11. I am

CONFIDENTIAL

11. I am sending copies of this minute and enclosed paper to the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

(G.H.)
12 May 1980

BUDGETARY EFFECTS OF VARIOUS PROPOSALS DISCUSSED AT LUXEMBOURG

This note provides estimates of the UK's net contributions for 1980 and 1981 (and to some extent for 1982) based on Commission forecasts but taking account of the agricultural proposals discussed at Luxembourg. It also looks at the effects of the two main formulae for a settlement which were suggested by the British and French delegations.

Calculations used in the negotiations

2. The final British proposal was a ceiling on our net contribution of 538 meua in 1980, uprated for 2 years by the growth in the total EC Budget. Assuming a budget growth of 20% this produces a figure of 645 meua in 1981, and 775 meua in 1982.

3. The first French proposal, as reported to us, was for a fixed UK net contribution of 849 meua in each of the three years 1980, 1981 and 1982. The French then had second thoughts and at Luxembourg they proposed 849 meua in 1980 followed by reductions in our net contribution in 1981 and 1982 equal to the reduction in 1980.

4. The final French (and German) proposal at Luxembourg set a ceiling of 538 meua for 1980 only in a two year arrangement, followed by a repetition in 1981 of the reduction given to produce 538 in 1980. President Giscard is said to have estimated that repeating the 1980 reduction would leave the UK with a net contribution of 800 meua in 1981. This was the basis for President Jenkins' claim that the two parties were only 150 meua apart.

5. It looks as if President Giscard was working on the following figures for the uncorrected UK net contribution:

1980	1783 meua (1683 + 100 for the agricultural settlement)
1981	2045 meua (1783 - 538 + 800)

Thus he recognised that the Commission's estimate of 1683 would be raised by a 5% agricultural settlement. Even so, we regard his figures as very much at the optimistic end of the range of possibilities, so that the difference between the British and the Franco-German positions was in fact greater than Jenkins alleged.

6. At an earlier stage in the discussion in Luxembourg, it was suggested to Heads of Government by officials that one possible formula would be to divide the financing of the UK's net contribution each year between the UK and the other eight member countries on a percentage to be agreed. The Germans, who originated this proposal, suggested that a 50/50 division might be appropriate.

Updated figures for the EC Budget and the UK's net contribution

7. The agricultural measures described at Luxembourg will affect both the size of the Budget and the UK's net contribution. In addition the Commission have admitted that their previous estimates of agricultural spending in 1980 are far too low. The calculations described above take some account of all this. But the French estimates start from a figure for the UK's net contribution which assumes - unrealistically in our view - that the UK will have negative MCA's in 1980.

8. In fact the UK's uncorrected net contribution to the allocated budget is now likely to be at least 1913 meua in 1980. The increase from the Commission's earlier estimate of 1683 meua arises from our removal of the Commission assumption about negative MCA's (130 meua) as well as from the effect of higher agricultural spending, including the proposed price package (100 meua) and the sheepmeat proposals (trivial in 1980; about 15-20 meua in 1981). Our best estimate is that our uncorrected net contribution is likely to be just over 2 billion eua.

9. Forecasting the UK's net contribution for 1981 is a formidable problem. As part of their Triennial Estimates the Commission have

produced forecasts of the total EC Budget for 1981 on two alternative hypotheses, but no estimate of the UK's contribution. Even on optimistic assumptions about the growth in the EC Budget and other factors affecting our net contribution (eg growth in UK duties and levies and VAT share), the UK's net contribution in 1981 is likely to be higher than in 1980 (about 2090 meua). On more realistic assumptions about the growth in agricultural spending, the Community may exhaust its own resources available within the 1% ceiling and may require special measures eg on the form of national financing, to accommodate a UK refund within the ceiling. This implies a growth in the total budget of about 25%. On this basis our central estimate of the UK net contribution in 1981 would be around 2350 meua.

10. These calculations are summarized in the following table:-

MEUA

	Optimistic assumptions		More realistic assumptions	
	1980	1981	1980	1981
Total Budget	15,800	18,950	16,300	20,400
UK net contribution without adjustment	1,913	2,088	2,027	2,352

11. No estimates are offered in this paper for 1982, by which time it seems highly probable that the Community Budget will have reached the 1% VAT ceiling. The most probable outcome appears to be that the momentum of budgetary growth will continue and will, by one means or another, be accommodated. We shall hardly be in a position to resist indefinitely the provision of extra revenue because we shall need a new agreement to refund a large part of our contribution when the 2 or 3 year settlement now in prospect expires. Other members will want to raise the 1% limit for the same reasons as led them at Luxembourg to support a 5% agricultural price increase. In these circumstances, the UK's net contribution is likely to go on rising.

British and French proposals: revised estimates

a. British Formula

12. At Luxembourg a 20% annual rate of growth in the budget was used as a rule of thumb for calculating the effect of an offer to increase 538 meua for 1981 and 1982 in line with budget growth. That gave figures of 645 and 775 meua. Our present view is that growth between 1981 and 1982 is more likely to be nearer 25%, producing 673 in 1981 under this formula. This is a relatively small difference. The refunds to arrive at these figures could vary a great deal however, according to the scale and pattern of our imports and to other factors affecting our net contribution, as well as the growth of the budget.

b. French Formula

13. The effect of the French formulae as presented at Luxembourg (see paragraphs 3-5 above) is of course highly sensitive to the growth in the UK's net contribution before adjustment. On optimistic assumptions, there is not very much to choose between the French and British proposals in 1981. If the 1980 ceiling were set at 538, our net contribution in 1981 on the optimistic case described in paragraph 9 would be 713 meua, compared with 645 meua on the British proposal; with a 1980 ceiling of 849, our net contribution in 1981 would be, on the French formula, just over 1 billion eua.

14. These figures rest on a small rise in our uncorrected net contribution in 1981. On less optimistic assumptions, the difference would be greater. If the first year ceiling were set at 849 meua, the French formula would leave us with a new contribution of 1174 meua in 1981, about 500 meua higher than with the British proposal. Even if the ceiling were set at 538 in the first year, the British formula would be about 190 better than the French. If, as is quite possible, the rise in the UK's uncorrected net contribution were steeper, the difference between the two proposals would, of course, be more pronounced.

15. The above comparisons are summarized in the table below:-

UK Net Contribution

MEUA

	Optimistic assumptions		More realistic assumptions	
	1980	1981	1980	1981
Unadjusted	1,913	2,088	2,027	2,352
British proposal	538	645	538	673
French proposal				
(a) starting with 538 meua	538	713	538	863
(b) starting with 849 meua	849	1,024	849	1,174

Comparison of the proposals

16. The British proposal has two very important advantages for us. By focusing on our net contribution it meets our argument that the Community should consider what is an equitable net contribution for the UK; and it frees us from most of the risks of a steep growth in our uncorrected contribution. The French proposal implies that our contribution after refund will grow between 1981 and 1982 by the same absolute amount in cash terms as it would have done before refund. The British proposal limits the possible rise in percentage terms to the growth in the budget. Unless there is a very dramatic improvement in the balance between our share of receipts and contributions, the British formula will yield more in the second and any subsequent years.

6

cc 10 Ms Franklin (Cabinet Office)
PS/Chancellor of the Exchequer
PS/Mr Jopling Agric Fish & Food
Ms Alexander (No 10)

Spare copy

ECD(I)

SECRETARY OF STATE'S MEETING WITH THE FRENCH AND GERMAN FOREIGN MINISTERS IN BONN ON 12 MAY: THE COMMUNITY BUDGET

1. M. Francois-Poncet said that it would be impossible to discuss figures at the meeting in Naples on 17-18 May, since the Finance Council Meeting, due to be held on 12 May, had been cancelled. In any event there was no possibility of the UK getting the same offer again. The French now felt that they had gone much too far. Herr Genscher echoed these sentiments, and claimed that the Germans were now providing all the money for the budget, and would be the only net contributors under the arrangements discussed at Luxembourg. Lord Carrington rebutted this, and said that he saw no prospect of solution if figures could not be discussed. We had refused what was on offer at Luxembourg because the problem of duration had not been solved. If the French and Germans now withdrew the offer they had then made, there could be no solution. Three years was a minimum for duration.

2. Messrs Francois-Poncet and Genscher then argued that the scale of the figures involved over the next two years or so was too big to accommodate a three year settlement. Lord Carrington pointed out that this only illustrated the size of the problem. M. Francois-Poncet said that we had been mistaken not to accept a one year solution with a recasting of the budget mechanism to follow. Lord Carrington said that he saw no reason why we should not be given a three year settlement, accepting the recasting of the budget mechanism as it was brought into effect.

3. Herr Genscher raised agricultural prices. Lord Carrington made it clear that these were linked with a solution to the budget, that we had not been the first to make this link, and that it was now too late to unlink the two issues. He stressed that there could be no agreement on agricultural prices until the budget was solved. M. Francois-Poncet made sour noises.

4. On sheep meat, Lord Carrington made it clear that the Commission's arrangements were unacceptable. As he developed our case in detail, it became clear that M. Francois-Poncet was not well briefed on the subject, though he admitted the pointlessness of creating lamp mountains. There was no discussion of either oil or fish.

5. M. Francois-Poncet and Herr Genscher said that they

/had come

had come a long way to meet us on the budget. Lord Carrington said that we too had moved, and that it was now up to our partners to make an accommodation possible.

(G G H Walden)

13 May 1980

cc: PS
PS/LPS
PS/PUS
Sir D Maitland
Lord Bridges
Mr Bullard
Mr Hannay
Planning Staff

FILE

Euro Pol.

VLB

cc LPO FST FPC
LPSO LAD CO
SO CWO(Lords)
WO FCO
CDLO HMT
CWO MAFF
LOD D/T

12 May 1980

Ten-Minute Rule Motion: E.E.C. Referendum

The Prime Minister has seen the Lord Privy Seal's letter to the Lord Chancellor dated 6 May.

Subject to the views of her colleagues, she is content that we should proceed as the Lord Privy Seal suggests.

I am copying this letter to the Private Secretaries to the members of L and OD(E), to First Parliamentary Counsel and David Wright (Cabinet Office).

N J SANDERS

Ian Maxwell, Esq.,
Lord Chancellor's Office.

VLB

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

12 May 1980

Pm

Same as 9th May attach

Dear Michael

Luxembourg Compromise

I enclose a note, as requested by the Prime Minister, on how the Luxembourg Compromise was handled during the accession negotiations.

I am copying this letter to David Wright in the Cabinet Office.

Yours ever

Paul

(P Lever)
Private Secretary

Michael Alexander Esq
10 Downing Street
London

CONFIDENTIAL

DRAFT NOTE

THE LUXEMBOURG COMPROMISE

1. The Luxembourg Compromise of 28/29 January 1966 on majority voting is not a legal document but a political understanding. It was not therefore formally discussed during the accession negotiations and there is no reference to it in the Treaty of Accession. The Law Officers have advised that it could not be relied on in the event of a determined attempt to revert to the majority voting rules of the Treaty. Nevertheless, the principle of taking decisions by consensus where important national interests are at stake became clearly established in the Community following the conclusion of the Compromise and this was recognised in the following way during the accession negotiations.

2. When Mr Heath met M Pompidou in Paris on 20 and 21 May 1971, they reached agreement that questions affecting vital interests of Member States should not be decided by majority vote. In his statement to the House of Commons on the outcome of the talks on 24 May 1971 (Hansard Volume 818, column 32) Mr Heath stated that

> '' we were in agreement that the maintenance and strengthening of the fabric of cooperation in the Community requires that decisions should in practice be taken by unanimous agreement when vital national interests of any one or more Members are at stake.''.

It is not surprising that this agreement was with the French alone, as no other Community member has explicitly agreed to this interpretation of the Compromise.

3. The White Paper on the Terms of Accession (''The United Kingdom and the European Community'', cmnd 4715) stated that

> '' where Member States' vital interests are at stake, it is Community practice to proceed only by unanimity.''

FOREIGN AND COMMONWEALTH OFFICE

8 MAY 1980

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

12 March 1980

Dear Private Secretary,

COMMUNITY BUDGET AND OTHER ISSUES

In the run up to the European Council on 31 March the Foreign and Commomwealth Office recently issued guidance to Cabinet Ministers on how the arguments being put forward by Member States can be rebutted.

The Paymaster General thinks that it would be useful for all Ministers to have this guidance and a copy is now attached for the use of your Minister.

Richard Prescott

R E S PRESCOTT
PRIVATE SECRETARY

CONTRIBUTIONS TO THE COMMUNITY BUDGET AND UK TRADE PATTERNS

POINTS TO MAKE

1. Excessive payments tothe EC account for only one third of our budget problem and taxes on imports to even less - the greatest part arises from the low level of Community expenditure in the UK.

2. Any suggestion that we are not 'playing the Community game' is without foundation. Our scrupulous implementation of 'Community preference' gives Community exporters a competitive edge in the UK market. We cannot compel traders not to buy outside the Community; it would contravene Article 110 of the Treaty.

3. Even if it were possible overnight to buy 5% more of our imports from the EC, the gross reduction in our contributions would probably be only some 140 mEUA.

4. Since 1973, the proportion of our trade with the Community has increased steadily. Each of the original members now does a smaller percentage of trade within the Community than they did in 1972:-

[Commission Data]

Intra Community Trade	1978	1979
UK Trade with Community as a percentage of total trade	39.2	42.5
Average of Member States' trade with Community as a percentage of their total trade	51.2	n.a.

[UK Data]

UK Trade with the Community	1972	1979
Exports to the EC as a percentage of total exports to all destinations	30.2	41.7
Imports from the EC as percentage of total imports from all sources	31.6	43.1

/Imports

Imports from EC as Percentage of Total Imports

(from Commission supplementary information)

	1972	1979	Change 72-79
France	56.0	51.4	- 4.6
Italy	49.2	44.7	- 4.5
Germany	53.9	50.1	- 3.8
Belgium/Luxembourg	71.1	69.0	- 2.1
Netherlands	62.3	57.4	- 4.9

5. The UK tends to be a more open economy than any of our competitors. In 1978 our imports were 25% of GDP compared with 20% for Italy, 19% for Germany and only 17% for France.

[Defensive]

6. The increasing volume of trade between the UK and the Community since accession is the result of a purely commercial reaction to the effect on prices of the Common External Tariff. This trend will continue regardless of any revision to the Financial Mechanism.

NORTH SEA OIL AND THE UK ECONOMY

POINTS TO MAKE

1. The UK's budget claim is based on the proposition that with the third lowest income per capita in the Community, we should not be the largest per capita net contributor to the Community budget. This is an inequitable, politically unacceptable and unsound basis for the financing of Community expenditure on common policies.

2. North Sea oil's contribution to the UK economy is fully captured in the figures for GNP per head, which is generally recognised as the best available measure of capacity to pay in international transactions It is an asset which we would not be without, the benefits of which we recognise, but unlike some other natural resources, e.g. good agricultural land, it is a wasting asset.

3. North Sea oil contributed two and a half per cent of British GNP in 1979. Even at peak production in the mid-1980s it will contribute only 6%. This is less than natural gas contributed to the Dutch economy in 1976-77 (6.5%); it is less than the share of UK GNP accounted for by construction, or by agriculture and food production. At no stage in the foreseeable life of the North Sea oilfields will it significantly affect the UK's relative position in terms of either its share of Community GNP or its GNP per head.

4. Indeed Commission forecasts show that despite the benefit of North Sea oil, the immediate prospect for the UK economy is the bleakest in the Community. It faces a marked contraction of output. Only the Danish economy is also expected to decline, and then by a smaller percentage than that of the UK.

5. The UK remains a predominantly manufacturing and trading country and a substantial consumer of oil. It is still a net importer of oil (and even at peak production will only be a marginal net exporter). Its industries and consumers pay the full market price for oil and thus suffer as much as those in other member states from the depressive effects of higher oil prices. The immediate effect of a price increase is therefore negative both on our balance of payments and on the resources available for domestic use in the economy.

6. Higher oil prices transfer income from UK consumers to the oil companies (higher profits) and the Government (higher tax revenues). The increased Government's revenues are at the expense of consumer

 /spending

spending power and there is no resource gain to the economy as a whole.

7. The increase in PRT revenues will in any case be largely offset by the loss in other tax revenues resulting from the lower level of economic activity which higher oil prices have helped to bring about.

PAYMASTER GENERAL'S OFFICE
68 Whitehall
London SW1A 2AT

12 March 1980

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Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's Private Office

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

9 May 1980

Dear Michael,

COMMUNITY BUDGET: THE NEXT STEPS

As requested in your letter of 2 May to George Walden at the Foreign and Commonwealth Office, I submit two new papers, approved by my Minister, one on fish and the other on mutton, for consideration by the Prime Minister.

There have of course been interdepartmental official discussions of the issues, and I understand that some reservations were expressed about the desirability of the Community-financed variable premium for UK sheepmeat which the sheepmeat paper proposes as the best means of reducing the volume of intervention buying, if we fail to get intervention sufficiently limited or the proposed intervention price sufficiently reduced. My Minister however regards this as the most promising means of solving the intervention problem, and to the benefit of the British producer and consumer.

I am copying my letter and its enclosures to George Walden and Michael Richardson at the FCO, John Wiggins (HM Treasury), John Craig (Welsh Office), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

Yours sincerely
Gordon Waters

G R WATERS
Principal Private Secretary

FISHERIES AND THE EC BUDGET

Memorandum by the Minister of Agriculture, Fisheries and Food

BACKGROUND

1. As we expected, fisheries proved to be one of the contentious points at the 27/28 April European Council, especially in relation to the so-called principle of "equal access", and this is recognised in the conclusions (Annex A). It is not yet clear whether the budget will be settled at the June meeting of the European Council or elsewhere, but in either event it seems that a statement on fisheries will be adopted at the same time and this was confirmed at this week's Foreign Affairs Council. We therefore need to consider what our objectives and tactics on fish should be in the budget context.

2. The starting point for renewed discussions will probably be the text produced by the "Ruggiero Group" which was discussed at Luxembourg (Annex B). The square brackets in the first paragraph reflect a reservation by the French, who were seeking to insert a settlement date earlier than the end of the year. Those round the whole of the indents in the second paragraph relate to our reservations concerning the detailed references to particular "principles". But our main reservation related to the specific references to access in sub-paragraph (c).

UK OBJECTIVES

3. The most explicit commitments we have given on access were those in the statement issued by the Prime Minister in her tour of North East Scotland on 26 April 1979. This stated that a Conservative Government's negotiating aims would include:-

"an adequate exclusive zone"; and

"a further considerable area of preferential access".

There is no doubt that the fishing industry and public opinion attach much importance to our achieving a satisfactory revision of the CFP and that access is a vital component in our demands.

ATTITUDE OF THE OTHER MEMBER STATES

4. Article 100 of the Treaty of Accession provided for derogations from the common fisheries policy until end-1982 in respect inter alia of access, and Article 103 provided for the Council to consider provisions to follow these derogations. Other Member States will be seeking to minimise the departures from free access that may be agreed. Whilst the Irish and the Danes might be expected at least to some extent to have similar views to ours on this question, they expect to have their needs met in ways which are unlikely to help us.

TACTICS

5. The conclusions of the European Council were that discussion should be resumed by Fisheries Ministers, though it is not clear whether this relates to fisheries generally or to the unresolved text on access. It is generally in our interests to make progress towards a settlement and we would not be opposed to an early Fisheries Council provided it is held to discuss new proposals from the Commission put forward after a proper round of bilaterals and covering all the essential elements of a common fisheries policy. This would effectively rule out a Council in May, since it is highly unlikely that, given his other current preoccupations, Gundelach would be able to undertake the necessarily extensive bilateral contacts in the time available. It would clearly be very much against our interests to have an ill-prepared Council at this stage.

6. We may, of course, given the conclusions of the European Council, have to discuss a text on access in the Fisheries Council, but the above analysis suggests that, unless Gundelach undertakes the consultations and makes new proposals, we should aim to keep any

contacts between Fisheries Ministers in a low key until the budget is settled. A text on fisheries to be adopted with the budget decision can probably best be settled in the same forum as the budget.

POSSIBLE TEXT ON ACCESS

7. In whatever forum discussions on the fisheries text are renewed, we will need to have ready a text on access which stands a chance of being negotiable while protecting our position. Although our preference would have been to avoid a list of principles to be observed, it is not now realistic to expect to avoid a statement which goes into some detail. The Ruggiero text at Annex B includes points which we would have preferred to avoid, but we can live with all the elements in it other than access provided no attempt is made to introduce any more specific commitments. We should therefore use our readiness to move on the inclusion of general principles as a means to obtain a more acceptable version of sub-paragraph (c). The sort of phrase which might be acceptable is:-

> "(c) equal conditions of access, subject to the need to take account of the vital needs of local communities specially dependent upon fishing and the industries allied thereto, and of the necessity of adopting without delay provisions to solve the problems of coastal fishing activity, in particular in economically disadvantaged regions, and to regulate fishing activity within a coastal belt."

I have reluctantly concluded that agreement is unlikely to be possible without a reference to equal access. Overall, however, although the text might be held to weaken somewhat our case for preferential access outside 12 miles we could claim that it went no further in this respect than the Hague Agreement itself which was of course accepted by our predecessors. Naturally we would not wish to produce any text until it was clear that the time was ripe. We will need to judge that nearer the time.

CONCLUSION

8. I propose, therefore, if we cannot prevent fish from being linked with the settlement of the Budget, that we should aim:-

i) to concede at maximum a statement of general principles, according to which the Fisheries Council should approach the renegotiation of the common fisheries policy;

ii) to insist that, to be acceptable for this purpose, the Ruggiero text should be amended to include satisfactory wording on access (as in paragraph 7);

iii) to see this text settled in the same forum as the Budget issue is settled; but if necessary we would have to deal with the matter in a properly prepared Fisheries Council;

iv) more generally, to ensure that the Commission presents revised proposals only after full consultation, that these cover all the elements of a common fisheries policy and that they are made before any further meeting of the Fisheries Council.

ANNEX A

FISHERIES

The European Council - while noting that an agreement existed on the need for adoption as swiftly as possible of the decisions necessary for the introduction of a common fisheries policy together with a number of basic features of such a policy - found that there was still disagreement on the questions concerning the principle of equal access.

It agreed that the examination of this matter would be resumed by the Council composed of Ministers for Fisheries.

FISHERIES

The European Council invites the Community Institutions to adopt as swiftly as possible the decisions necessary to ensure that [before the end of the year] a common overall fisheries policy is introduced.

The European Council considers that, in compliance with the Treaties and with the agreement reached in The Hague on 3 November 1976, this policy should be based [on the following principles:

(a) rational and non-discriminatory management of resources and conservation and reconstitution of stocks;

(b) fair distribution of catches having regard, inter alia, to the special needs of certain regions in which economic activity is largely dependent on fishing, to traditional fishing activities and to the loss of catch potential in third country waters;

[(c) respect for the principles of equal access taking account of special needs of coastal fishermen and of regions particularly dependent on fishing;]

(d) effective controls on the conditions applying to fisheries;

(e) adoption of structural measures which include a financial contribution by the Community;

(f) establishment of securely-based fisheries relations with third countries and implementation of agreements already negotiated. In addition, endeavours should be made to conclude further agreements, in which the Community could also offer trade counter-concessions.]

SECRET

A COMMON ORGANISATION OF THE MARKET FOR SHEEPMEAT

NOTE BY THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD

At this week's meeting of the Council of Agriculture Ministers we put a series of questions to the Commission directed to exposing the serious short-comings of the sheepmeat proposals they tabled during the European Council in Luxembourg. Following an unconvincing response from Vice-President Gundelach, other Member States offered no comments and at our insistence the Commission's proposals were remitted for detailed examination by the Special Committee. We now need to consider what approach we should adopt in further discussion of these proposals.

2. The Commission has now moved to a position of recommending unlimited intervention throughout the Community from mid-July to mid-December, the main marketing season, with the possibility of further intervention at other times of the year. They have further suggested an initial basic price at the high French price level and an intervention price above the forecast average Community market price with free trade. Although export refunds are not specifically included in the Commission's latest proposals, Gundelach has confirmed at the Council of Ministers that he saw a role for them in the scheme he has put forward which implies that provision for the use of export refunds would be included in the Council regulation we would be expected to accept. There would also be large premiums for French producers, but little or no such aid for ours, and no firm timetable for phasing out such compensatory payments and establishing a common reference price and common premium.

Attitude of other Member States

3. The French are determined to have intervention to put a floor in the Community market above the current weighted average Community market price, to be supplemented by compensatory premiums to maintain French producers' revenues at their present

level. Until recently other Member States, except Ireland, have fully supported us in opposing an interventionist regime but they will now find it difficult to pull back from their acceptance in Luxembourg of the Commission's proposals which they saw as a means of allowing them Farm Price increases they desperately need. It will now be very difficult for us to secure any significant modification to these proposals despite their obvious shortcomings.

Implications of the Commission's Proposals

4. Our estimates of the intervention and financial consequences of the Commission's proposals are in Appendix I. These show that in the first year of the regime some 18,000 tonnes could go into intervention, mainly in the UK. The UK would secure no premium benefits while contributing to the cost of premiums for France and other Member States. This contribution would be more than offset by receipts from the Community for the cost of intervention incurred in the UK. Thereafter if in subsequent years the initial intervention level were maintained in real terms we could see the quantities purchased rising over several years up to about 100,000 tonnes (two-thirds in the UK) due to a combination of rising production but declining consumption caused by the level of intervention price. The regime would become increasingly costly, but our net receipts from the Community budget would rise because the larger part of the increasing intervention would occur in the UK. Were intervention confined to France the effect would be to attract a large, and increasing, quantity of British lamb away from the domestic market into France over and above our increased exports resulting from free circulation.

5. The disposal of stocks of frozen sheepmeat on this increasing scale would not only be extremely expensive but could disrupt the markets on which they were sold. New Zealand is currently sending the Community as a whole around 250,000 tonnes of frozen lamb, mainly to the UK. She will benefit from the strengthening of UK prices under a common market with free circulation. But any disposal of intervention stocks at the increasing levels foreseen in our estimate on the Community market would be very

damaging to New Zealand's sales and returns. Similarly to dispose of stocks on this increasing scale with the aid of export refunds in North Africa and the Middle East could seriously disrupt these markets which in the case of the Middle East are becoming very important to New Zealand.

6. These implications of the Commission's proposals are only too evident to New Zealand as Mr Muldoon's recent message to the Prime Minister shows. The negotiation of a voluntary restraint agreement would be seriously prejudiced. In the absence of a sufficient moderation of the Commission's proposals to satisfy New Zealand that the consequences discussed above would be avoided, she would presumably refuse to sign up to a voluntary agreement. The French would then seek a deconsolidation of the GATT binding.

UK Approach in Further Negotiations

7. Our main objectives should be to secure arrangements which would give us a resource gain and to avoid heavy intervention with all the adverse consequences this would carry with it. In the note on the Commission's proposals submitted in Luxembourg by the Agricultural Council to the last European Council, UK objections were recorded to -

i) the principle of public intervention
ii) the method of calculating premiums and in particular reference prices
iii) the principle of export refunds (French request for their inclusion)
iv) the level of the basic price (the Commission having proposed 345 ECU/100 kg).

8. Ensuring a resource gain for the UK and eliminating the present discrimination against our sheepmeat sector requires securing premium arrangements which will give a proportionate benefit to our producers. We should in particular seek a firm timetable for phasing out discriminatory premiums, in not more than 2/3 years, and for establishing a common reference price and common premium.

9. As regards export refunds, we should press for complete exclusion from the Council regulation. Otherwise decisions on their use would rest with the Commission under the Management Committee procedure. If we are unable to secure agreement to exclusion permanently the only acceptable fall back would be to accept initial exclusion but with a review after a period.

10. As regards intervention, we should of course seek all means of restricting its scope and minimising the likely disruption of markets which would result from the disposal of large stocks of frozen sheepmeat. The idea of providing for the re-sale at subsidised prices of stocks purchased, still in fresh or chilled form, to areas of the Community where little sheepmeat is now consumed might be tested out in discussion. What would be essentially a commercial operation by intervention agencies would however present formidable administrative problems. And even if means could be found for preventing such subsidised meat being sold back into the French market, other Member States would not welcome the sale of cheap mutton and lamb in their meat markets.

11. Measures to restrict the scope of intervention will not however in themselves remove the risk of intervention buying on the increasing scale foreseen in our estimates unless we can secure a significant reduction in the proposed basic price of 345 ECU/100 kg, and the derived intervention price which would be above the current weighted average of the Community market price. To remove the likelihood of heavy intervention the basic price needs to be reduced to not more than 315 ECU which would bring the derived intervention prices down to 268 ECU (Continent) and, say, 263 ECU (UK and Eire). The estimates in Appendix I indicate that with prices at these levels intervention would be initially minimal and subsequently should be held to moderate levels.

12. We could go for the options of not operating intervention in the UK at all or of setting the intervention price in the UK much lower than in France. Neither however would overcome the problem posed by an over-high intervention price in France which would draw large quantities of lamb from the UK to France

over and above the requirements of free trade unless there was some counter-balancing support in the UK. There would still be very large quantities in intervention and the fact that it was concentrated in France would make it no less objectionable to New Zealand.

12. The only possible means of offsetting these effects of a high intervention price in France would be to operate a FEOGA financed variable premium in the UK linked to seasonalised target prices at a level comparable with the seasonalised intervention price in France. Under this alternative in any week when the average market price is below the seasonalised target price a premium equal to the gap between the two prices is paid on eligible sheep marketed for slaughter. The return to the producer is maintained; there is no adverse impact on consumption; and, if the premium is recouped on export there is no risk of heavy exports into French intervention. Provision for such an alternative was included in working proposals circulated by the Commission last year. It will be difficult to secure, but some other Member States would like to avoid heavy intervention and they are all committed to 100% FEOGA funding of whatever measures are agreed.

Conclusion

13. Public intervention is both unnecessary and inappropriate for the Community sheepmeat sector; but France is insisting on an intervention-based sheepmeat regime as part of her price for a settlement of the budget issue. If she sticks to this, we shall have to negotiate the best arrangements for sheepmeat that we can, reducing as far as we can the adverse effects for ourselves and for New Zealand. Our main objectives, reflecting the reservations on the Commission's proposals we have already lodged, should be the following -

1) we should seek a substantial reduction in the proposed basic price and derived intervention price to avoid the risk of heavy intervention particularly in the UK;

2) we should also seek maximum limitations on the scope of intervention and explore whether there is any possibility of avoiding the freezing of meat bought into intervention;

3) if we are unable to secure a sufficient reduction in the basic price we should seek a variable premium for the UK to avoid the over-high intervention price leading either to heavy intervention in the UK or to exports of our sheepmeat into French intervention;

4) we should seek the exclusion of export refunds from the regime;

5) we should seek a basis for calculating the premiums proposed by the Commission which will give proportionate benefits to the UK: and in particular a firm timetable for the early achievement of a common reference price and premium.

APPENDIX I

PRELIMINARY ESTIMATE OF COST OF SHEEPMEAT REGIME

A COMMISSION'S PROPOSALS IN ANNEX 2 TO AGRICULTURAL PRICES DOCUMENT

Year 1	MECU	£m
Premiums	94	61
Intervention	39	25
Total EC Expenditure	133	86
UK Gross Contribution	24	15
UK Receipts	29	19

Longer Term

Premiums - expenditure would depend on movement of market prices and alignment of reference prices

Intervention costs:	MECU	£m
Total EC Expenditure	217	140
UK Gross Contribution	39	25
UK Receipts	132	85

B ASSUMING INTERVENTION PRICE BELOW CURRENT WEIGHTED AVERAGE MARKET PRICE

Year 1	MECU	£m
Premiums	112	72
Intervention	1	1
Total EC Expenditure	113	73
UK Gross Contribution	21	14
UK Receipts	0	0

Longer Term

Premiums - expenditure dependent on market price and reference price changes

Intervention:	MECU	£m
Total EC Expenditure	32	21
UK Gross Contribution	6	4
UK Receipts	19	12

NOTES:

i. Commission indicated at Council that they envisaged basic price of 345 ECU/100kg. Costs at A are based on intervention price of 293 ECU/100kg for Member States except UK and Eire where 288 ECU/100kg is assumed to take account of transport costs. Costs at B are based on

basic price of 315 ECU/100kg; intervention prices of 268 ECU/100kg on the Continent and 263 ECU/100kg in UK and Eire.

ii. Estimated quantities taken into intervention (tonnes);

A

First Year		Long-term	
UK	13,500	Total	100,000
Eire	2,500	(UK about 65,000)	
Others	2,500		

B

First Year		Long-term	
Total	less than 500 (all in Eire)	Total	17,000 (10,000 in UK)

iii. Assumes intervention all the year round as French are insisting. Commission propose that intervention would operate from 15 July to 15 December with intervention at other periods of year on a temporary basis if necessary. Limiting intervention in this way could reduce the quantities bought in somewhat, but would tend to encourage production in the intervention period.

iv. Year 1 market price assumption as in 6448/80.

v. Cost of intervention 1720 ECU (£110) tonne (Commission estimate). Cost of export refunds equals difference between the intervention price in each Member State, minus the loss of value in intervention, and the world price. This varies between 450 ECU (£290) per tonne and 94 ECU (£61) per tonne.

vi. Private storage is unlikely to be made use of as currently proposed and no estimate is therefore included.

vii. A tariff cut as envisaged under VRAs of say 10%, could save the UK some £20m a year in gross payments to Brussels and some £15m a year in public expenditure.

Ref: A02137

CONFIDENTIAL

PRIME MINISTER

Community Budget

This is by way of background to your meeting with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer on 12th May.

2. The meetings of the Foreign Affairs Council and the Agriculture Council earlier this week, like your own meeting with President Cossiga, showed evidence of a general desire to try to resolve the outstanding difficulties, if possible before the end of May. The Foreign Ministers agreed to take up the question at their informal meeting in Naples on 17th-18th May. There is no expectation that that meeting will settle matters, but the Presidency is looking for clear progress, and regard it as extremely important to settle before the end of May. The Council of Foreign Ministers will probably hold a special meeting before the end of the month. The Agriculture Ministers discussed some of the outstanding issues on the price package and set in hand further work on sheepmeat. They will meet again at the end of May, probably simultaneously with the Foreign Affairs Council. The Foreign and Commonwealth Secretary is hoping to see Signor Colombo in the margins of the NATO meeting in Brussels next Wednesday and will continue to encourage the Presidency, in consultation with the Commission, to explore the basis for an acceptable compromise.

3. The Presidency is still talking about a package which, in addition to our budget contribution, includes CAP prices, sheepmeat, fisheries and energy. The position on each of these is as follows:-

(a) CAP Prices. Mr. Walker was able to secure some minor improvements to the price package, but it is generally assumed that we will accept it if the budget issue is resolved.

(b) Sheepmeat. Mr. Walker succeeded in having the Commission/French proposals remitted for further expert study. He has sent you a paper suggesting the line to be taken in attempting to remove the worst excesses from the current proposals. We believe that in

See MAFF to MD BA of 9/5

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general his conclusions could be endorsed, but the Treasury are not happy with the idea of a variable premium in the United Kingdom which they think will give too much encouragement to British producers (who will anyway benefit from a sheepmeat regime) and so make things more difficult for New Zealand. This issue could be resolved by OD(E).

(c) Fisheries. You have a paper from Mr. Walker which has also been discussed in draft with the Scottish Office and FCO under Cabinet Office chairmanship. We cannot hope in the budget context to improve our negotiating position on fisheries, but we must do nothing to weaken it. We think that the line suggested by Mr. Walker is consistent with our real interest in making progress towards an early settlement and only agreeing to language which would not prejudice future negotiations on access.

see minute to MT 9/5.

(d) Energy. There is to be a meeting of the Energy Council on 13th May but there are few signs that we shall be seriously pressed to go further than the text which was agreed in Luxembourg. If necessary we could bring into play all or part of the presentational statement which you approved before Luxembourg.

On the budget issue itself, the message you received from Signor Cossiga was that, in some way or another, the solution would have to look different from the one which was under discussion in Luxembourg. The problem will be to secure a longer duration without losing the substantial gains which you made both on the reduction in our contribution for 1980 and the very important principle that, even if at somewhat higher levels, it is our net contribution which will be limited. Is the next step to work out, very quickly, ways of achieving this which might be a basis for bilateral approaches to (at this stage) the Italians (Carrington to Colombo on 14th May) and then to the French and Germans.

RWA

(Robert Armstrong)

9th May 1980

Foreign and Commonwealth Office

London SW1A 2AH

9 May 1980

(2)

Prime Minister.

The attached background notes makes it clear how significant the Luxembourg Compromise was in our accession negotiations.

AC

Dear Michael,

LUXEMBOURG COMPROMISE

I enclose a note, as requested by the Prime Minister, on how the Luxembourg Compromise was handled during the accession negotiations.

I am copying this letter to David Wright in the Cabinet Office.

Yours sincerely,

Miles A. Wilkstead

pp. M J Richardson

M O'D B Alexander Esq
10 Downing Street

THE LUXEMBOURG COMPROMISE

1. The Luxembourg Compromise of 28/29 January 1966 on majority voting is not a legal document but a political understanding. It was not therefore formally discussed during the accession negotiations and there is no reference to it in the Treaty of Accession. The Law Officers have advised that it could not be relied on in the event of a determined attempt to revert to the majority voting rules of the Treaty. Nevertheless, the principle of taking decisions by consensus where important national interests are at stake became clearly established in the Community following the conclusion of the Compromise and this was recognised in the following way during the accession negotiations.

2. When Mr Heath met M Pompidou in Paris on 20 and 21 May 1971, they reached agreement that questions affecting vital interests of Member States should not be decided by majority vote. In his statement to the House of Commons on the outcome of the talks on 24 May 1971 (Hansard Volume 818, column 32) Mr Heath stated that

> " we were in agreement that the maintenance and strengthening of the fabric of cooperation in the Community requires that decisions should in practice be taken by unanimous agreement when vital national interests of any one or more Members are at stake."

It is not surprising that this agreement was with the French alone, as no other Community member has explicitly agreed to this interpretation of the Compromise.

3. The White Paper on the Terms of Accession (" The United Kingdom and the European Community" , cmnd 4715) stated that

> " where Member States' vital interests are at stake, it is Community practice to proceed only by unanimity."

FOREIGN AND COMMONWEALTH OFFICE
9 MAY 1980

PM / Chancellor Schmidt discussion
Belgrade 7 May 1980

Original on:—
For Pol
May 1980

Brezhnev were to die, all the Western leaders would go to Moscow. Chancellor Schmidt made it clear that he hoped that the Prime Minister would go. The present absence of contact between the West and the Soviet Union was dangerous. It was incumbent on Western leaders, in the present vacuum in Washington, to talk to the Russians while consulting closely with each other about their contacts.

Community Budget

The Prime Minister said that she hoped that the detailed discussions of the outstanding problems of the budget could be carried forward by Foreign Ministers and Finance Ministers. However, she wanted to explain her basic concern to Chancellor Schmidt. She considered that the agricultural prices package and the sheepmeat agreement which Heads of Government were being asked to endorse were taking the Community in the wrong direction. Chancellor Schmidt had repeatedly urged that the United Kingdom should take the lead in reforming the CAP. She agreed that the CAP needed reforming. At the same time they were being asked to take short-term steps which would make reform more difficult. Insofar as it involved price increases for milk and sugar, the price package was ridiculous. The result of the present approach to the sheepmeat problem would be to add a lamb mountain to the butter mountain and wine lake. Sooner or later the Community would have to get to grips with the reform of the CAP. At present people were doing nothing but talk. A Community that could not tackle the CAP was a weak Community. For this reason, it would be difficult for the United Kingdom to accept the other elements in the overall package even if the budget problem itself could be resolved. Chancellor Schmidt said that there seemed at present little chance of resolving the budget problem. As it was, he had been on the brink of losing Herr Matthoffer. He would not repeat the offer he had made in Luxembourg. The Prime Minister could not rely on getting a solution from him. Was he also to assume that in addition to being disatisfied with what had been offered on the budget, the Prime Minister wished to reject the agricultural price package?

/The Prime Minister

The Prime Minister repeated that she found it difficult to accept a price package and a sheepmeat solution which were nonsense when she was being asked to initiate a reform of the CAP. She found it depressing that her colleagues would acknowledge privately that the price package was ridiculous but would vote for it when asked for their views in the European Council. Chancellor Schmidt said that he would not argue about sheepmeat since he did not understand it. He agreed that the structure of the CAP was monstrous. But reform of the CAP could not be achieved by denying farmers a price increase. It was necessary to distinguish between the need for reform and the need for farmers to be given some degree of protection against inflation. If the Prime Minister did not feel able to bring forward proposals for reform of the CAP - and he understood the Prime Minister's concern lest she should be accused of being non communautaire - somebody else would have to do so. Meanwhile annual price increases would occur. Farmers could not be denied increases which other members of society were getting. The Prime Minister commented that the farmers were being given treatment which was being denied to other manufacturers and enterprises. Chancellor Schmidt said that farmers within the Community had been exempted from competition for many years. The unified price system had perhaps been wrongly conceived - he was inclined to think so - but it had been in existence for many years and could not be reformed overnight.

The Prime Minister said that she might have to accept a 5 per cent increase in agricultural prices. She might even have to take, in the end, a 4 per cent increase in milk and sugar prices. But she thought that all such rises were ridiculous. Chancellor Schmidt said that co-responsibility levies would have to be increased on milk and sugar. He agreed that it was ridiculous. But sometimes ridiculous things had to be done because one's friends required one to do so. He was sorry that the present impasse had arisen

/and was

and was concerned about its implications for Europe. The Prime Minister would have to be willing to compromise. The Prime Minister made it clear that she was not yet ready to do so.

The discussion ended at 2205.

7 May 1980

Original on :—
For. Pol : May 1980

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF ITALY, SIGNOR FRANCESCO COSSIGA, AT THE INTERCONTINENTAL HOTEL, BELGRADE, ON 7 MAY AT 1815 HOURS

Present: Prime Minister
Mr. Michael Alexander
Signor Cossiga
Signor Squillante
Signor Berlinguer

* * * * * * * * * * *

Signor Cossiga said that the negotiations on Britain's contribution to the Community budget had now entered their last phase. Despite some of the things which had been said after the Luxembourg meeting, he refused to take a catastrophic view of the situation. He had made this plain in two public speeches in Italy. The Prime Minister agreed that nothing disastrous had happened at Luxembourg. Under Signor Cossiga's excellent Chairmanship, the meeting had got very close to a solution of the budgetary problem. However, she was worried by some of the other papers that the Council had considered. Both the sheepmeat proposals and the agricultural price package seemed to be pushing the Community in the wrong direction. The proposed language on fish would be very difficult for British fishermen to accept. It had been clear in Luxembourg that these problems would have to be sorted out. It had been equally clear that this could not be done by Heads of Government.

Signor Cossiga said that he saw three major problems. The first was posed by President Giscard's and Chancellor Schmidt's declarations that they did not want the British budgetary problem to figure on the agenda of the next Summit. The Prime Minister interjected at this point that she hoped the problem could be solved before the Summit. Signor Cossiga, agreeing, said that as much as possible would have to be achieved at Ministerial level and he intended to push the Foreign Ministers to take action. They should be encouraged to stress the political aspect of the problem.

/ The second issue

The second issue related to the farm price package. It was now clear that the idea that the principle of majority voting could be applied to farm prices was dead. It was important, given the strength of the agricultural lobby in every Community country, to get this point across clearly. The Prime Minister agreed and said that it was essential to preserve the Luxembourg compromise. Signor Cossiga said that he had taken careful note of the message he had received earlier from the Prime Minister on this point.

Signor Cossiga said that the third issue was the question of how and at what point the negotiations should be resumed. He did not think it would be possible to start again from the positions reached in Luxembourg. Although it might be accepted that the substance of what had been achieved in Luxembourg would be preserved, a way must be found to present the positions differently.

As regards the procedure to be adopted in the next few weeks, Signor Cossiga said that the positions of Chancellor Schmidt and President Giscard were crucial. He anticipated support from M. Martens and Mr. van Agt. He would be receiving Chancellor Schmidt in Rome on 15 May for a bilateral visit. This would afford an excellent opportunity for an in-depth examination of the problem. If in the light of that discussion it seemed appropriate, Signor Cossiga would then travel to Paris and Brussels. He would also be ready to come on to London (the Prime Minister said that he would be welcome at any time). In his discussions he would again stress the political factors which required the Community to find a solution to the problem. Failing a solution, the Community's efforts to coordinate their political positions would not be credible and the authority of the Community, e.g. at the Economic Summit, would be much reduced. It was difficult to explain to public opinion why the Community was unable to reach agreement, given that a relatively small sum of money was now involved.

The Prime Minister said that agreement was proving difficult to find because the Community was unwilling to address itself to the

/ fundamental

fundamental problem, viz the disproportionate share of the Community budget taken by the CAP. The problem was recognised by every member of the Community. Despite this, solutions were repeatedly produced to problems which made the fundamental problem more intractable. The agricultural price package increased the proportion of the budget being taken by the CAP. The proposed approach to the sheepmeat problem threatened to produce a lamb mountain. In the absence of a fundamental attack on these problems, the UK was bound to insist on a lasting solution to the budget issue.

Signor Cossiga agreed. He recalled that in Dublin he had said that in order to solve the British problem, and to avoid similar problems after enlargement, it would be necessary to change the structure of the budget. It would also be necessary to find ways of increasing trade between the United Kingdom and other members of the European Community and resolving once and for all the question of own resources. The Prime Minister agreed that these long term problems would have to be solved. But answers would have to be found to the short term issues first. She agreed with Signor Cossiga's proposals for the period immediately ahead. She accepted that a means might have to be found to present the figures discussed in Luxembourg differently, but stressed that she could not retreat on the substance. Foreign Ministers would certainly have a role in clarifying the position. Finance Ministers might also make a contribution and the Agricultural Ministers should continue their discussions, especially on sheepmeat. All should be encouraged to report before the end of May. There was no advantage in allowing the problem to drag on unresolved until Venice - although it might be in the end that only Heads of Government would have the authority to decide the final figures. It would be important for everyone to agree to look at long term changes in the way the Community operated.

Signor Cossiga said that there was now one month and five days left before Heads of Government assembled in Venice. He was confident that this would allow sufficient time to find a solution. The Prime Minister said that she shared his confidence.

The meeting ended at 1850.

GPS 925

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FM UKREP BRUSSELS 071705Z MAY 80
TO IMMEDIATE FCO
TELNO 2315 OF 7 MAY
INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG.

MY TELNO 2308

Read in full

UK BUDGET PROBLEM AND RELATED ISSUES

A FEW ODD PIECES OF INFORMATION AND ONE SUGGESTION.

2. I HAVE HAD AN ACCOUNT PRIVATELY OF A WORKING DINNER LAST NIGHT WHICH RUGGIERO AND NOEL ATTENDED. THREE POINTS OF INTEREST:

A. RUGGIERO ARGUED THAT IT WOULD BE DIFFICULT TO GET THE BRITISH OFF A DURATION OF THREE YEARS. THIS WOULD BE EXTREMELY DIFFICULT FOR THE FRENCH AND GERMANS WHO WOULD ALSO INSIST ON A RATHER DIFFERENT APPROACH TO THE AMOUNT TO MAKE IT CLEAR THAT THEY WERE NOT BEING LEVERED UP FROM THEIR WITHDRAWN OFFERS. THE SOLUTION ON THE AMOUNT MIGHT BE TO GO FOR A FIGURE HIGHER THAN 538 IN 1980 AND LOWER IN 1981 (UNFORTUNATELY LOWER THAN WHAT WAS NOT CLEAR).

B. RUGGIERO SEEMED TO BELIEVE THAT THE MAJOR CRISIS WOULD INEVITABLY BE UPON US IF THE MAY 31ST DEADLINE WAS NOT MET (SEE ALSO COLOMBO'S PRESS CONFERENCE IN MY TELNO 2307).

C. RUGGIERO THOUGHT THE COMMISSION, NOT THE PRESIDENCY, SHOULD MAKE PROPOSALS AND NOEL SAID HE WOULD REFLECT.

3. BOTH ORTOLI AND TUGENDHAT FELT COMMITTED TO PRODUCING SOME MORE FIGURES AS A RESULT OF THE COUNCIL DISCUSSION YESTERDAY. WE ARGUED WITH OUR FRIENDS IN THE COMMISSION THAT IF THEY HAD TO PRODUCE FURTHER FIGURES THEY SHOULD CONFINE THEMSELVES TO SETTING OUT THE RANGE OF POSSIBILITIES FOR THE TOTAL BUDGET FOR 1981-82 AND SHOULD AVOID PRODUCING A BREAKDOWN OF MEMBER STATES NET CONTRIBUTIONS IN THESE YEARS. (IT WOULD CLEARLY NOT BE HELPFUL TO OUR CAUSE TO HAVE THE COMMISSION PUTTING ITS AUTHORITY BEHIND PROBABLE CONSIDERABE INCREASES IN THESE TWO YEARS, AS WELL AS FOR 1980).

4. WHEN THE COMMISSION MET THIS AFTERNOON, NO FINAL DECISIONS ON THE NEW FIGURES WERE TAKEN. ORTOLI RECOMMENDED THAT WHATEVER FIGURES WERE PRODUCED SHOULD MAKE IT EASIER RATHER THAN MORE DIFFICULT TO FIND A SOLUTION. A SMALLER GROUP OF INTERESTED COMMISSIONERS WILL MEET TOMORROW AFTERNOON TO CONSIDER RECOMMENDATIONS FROM THE NOEL GROUP, WHICH ARE THAT:-

/(A)

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(A) 1980 - THE FIGURES SHOULD BE BASED ON THE EXISTING 1980 BUDGET PLUS THE COST OF THE NEW AGRICULTURAL PRICE PROPOSALS:

(B) 1981 AND 1982 - THERE SHOULD BE ALTERNATIVE HYPOTHESES SHOWING THE EFFECTS OF GREATER OR LESSER CONTROL OF AGRICULTURAL EXPENDITURE AND OF MAINTAINING STRUCTURAL EXPENDITURE AT THE 1979 SHARE OF THE BUDGET OR INCREASING IT.

THESE COMMISSIONERS WILL ALSO BE ASKED TO DECIDE WHETHER TO PRODUCE ESTIMATES OF MEMBER STATES NET BALANCES FOR THE THREE YEARS AS WELL AS ESTIMATES OF THE TOTAL BUDGET: WHETHER TO PRODUCE FIGURES FOR 1982 AT ALL AND, IF SO, WHETHER ANY OF THE HYPOTHESES SHOULD INVOLVE BREACHING THE 1 PERCENT VAT LIMIT. THE TUGENDHAT CABINET IS ARGUING STRONGLY AGAINST THE PRODUCTION OF FIGURES FOR THE NET BALANCES AND IN FAVOUR OF KEEPING THE PROJECTIONS WITHIN THE 1 PERCENT LIMIT.

5. OUR FRIENDS IN THE COMMISSION AND COUNCIL SECRETARIAT ARE ARGUING AGAINST A PRESIDENCY PAPER SETTING OUT THE DEGREE OF CONSENSUS ACHIEVED IN LUXEMBOURG ON THE GROUNDS THAT, WHEN THE PAPER WAS DISCUSSED IN COREPER, THIS WOULD BE BOUND TO LEAD TO THE FRENCH AND THE GERMANS DENYING THAT NEGOTIATIONS CAN START AGAIN WHERE LUXEMBOURG LEFT OFF. I THINK THAT THIS ARGUMENT IS RIGHT. IF THERE IS TO BE A PRESIDENCY OR COMMISSION PAPER AT ALL IT WOULD BE BEST FOR IT TO LOOK FORWARDS AND NOT BACK AND TO BE PRODUCED JUST BEFORE THE FOREIGN MINISTERS MEETING ON 17/18 MAY.

6. I HAVE LOBBIED MY BELGIAN AND DUTCH COLLEAGUES TO GET THEIR FOREIGN AND FINANCE MINISTRIES TO PUSH THEIR AGRICULTURAL MINISTERS INTO GIVING US SOME SUPPORT ON LAMB IN THE FURTHER DISCUSSIONS FORESEEN IN MY TELNO 2306 (AND WILL DO THE GERMAN AT LUNCH TOMORROW). THEY BOTH AGREED THAT THERE WAS NO REASON WHY THE FRENCH SHOULD GET EVEN 90 PERCENT OF WHAT THEY WANT ON LAMB AND THAT A LIGHT INTERVENTION REGIME WITHOUT EXPORT SUBSIDIES WOULD BE IN THEIR OWN NATIONAL INTERESTS.

7. I RECOMMEND THAT HM EMBASSIES LOBBY EVERYWHERE BUT PARIS AND DUBLIN. ARGUMENTS WHICH SEEM TO STRIKE HOME ARE THAT:

A. THE COMMUNITY CANNOT AFFORD TO START BUILDING A NEW MOUNTAIN AND DISRUPTING NEW MARKETS OVERSEAS. WE WILL NOT AGREE TO IT AND IT IS IN ANY CASE IN THEIR INTEREST TO ENSURE THAT THE FRENCH HAVE TO MAKE A GENUINE COMPROMISE.

/B.

B. SINCE THE FRENCH INSIST THAT A LAMB REGIME AND A LIMIT ON THE UK NET CONTRIBUTION GO TOGETHER, ALL OF THE OTHERS HAVE A VERY STRONG INTEREST IN LIMITING THE COST (THIS SHOULD TELL PARTICULARLY IN BONN).

8. I DO NOT THINK THAT WE SHOULD LET THE 31 MAY DEADLINE COME TO BE REGARDED AS A DATE BEYOND WHICH NEGOTIATIONS CANNOT CONTINUE. I AM TAKING THE LINE WITH COLLEAGUES THAT WE ARE FULLY READY TO TRY TO GET A SOLUTION THIS MONTH BUT THAT THE NEGOTIATIONS WILL HAVE TO CONTINUE IF WE DO NOT. THERE IS NO WAY IN WHICH THE AGRICULTURAL PRICES PACKAGE CAN LEGALLY BE PUT INTO EFFECT WITHOUT A COUNCIL DECISION WHICH WE WILL NOT AGREE TO. SO THE MARKETING YEARS WILL HAVE TO BE EXTENDED IF NECESSARY. NATIONAL AIDS WOULD ALSO BE ILLEGAL. THE FRENCH WILL NOT ABANDON THE LUXEMBOURG COMPROMISE AND THE OTHERS WILL NOT ALLOW THEM TO SUSPEND IT SELECTIVELY AGAINST US. THE DUTCHMAN STRONGLY AGREED WITH ALL THIS, CONFIRMING THAT THEY WOULD INSIST THAT THE FRENCH FORMALLY ABANDON THE LUXEMBOURG COMPROMISE ONCE AND FOR ALL AS A PRICE FOR DUTCH AGREEMENT TO A VOTE AGAINST OUR WISHES.

FCO ADVANCE TO:
FCO - PS/SOFS, PS/LPS, PS/PUS, BRIDGES, HANNAY, SPRECKLEY, FITZHERBERT
CAB - FRANKLIN, WALSH
TSY - SIR K COUZENS, HANCOCK, MICHELL
NO 10 - ALEXANDER

(ADVANCED AS REQUESTED)

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PRIME MINISTER
We have established the pattern that 10-minute rule Bills are not opposed by the Government. Subject to the views of colleagues, content to allow this one to follow the same path?
MS
8/5

Foreign and Commonwealth Office
London SW1

6 May 1980

Dear Quintin,

TEN MINUTE RULE MOTION: EC REFERENDUM

Mr Dennis Canavan MP has put down the following Ten Minute Rule Motion for 21 May:

> 'that leave be given to bring in a Bill to provide for the holding of a Referendum on whether the United Kingdom should continue to be a member of the European Economic Community.'

There are strong arguments for departing from usual practice by opposing the introduction of this Bill. In the good climate created by the Prime Minister's statement of 29 April and given that we want to make it clear that we are not going to leave the Community, there is much to be said for opposing. If there were a division, we might be able to point to very limited support for the idea of a referendum.

On the other hand, we might find that we had stirred up a hornet's nest, while if handled in the ordinary way, the motion would have attracted no notice at all. The Opposition could be forced to take up a position, Labour anti-Marketeers could turn out in force and we might find that there was quite a substantial pro-referendum vote (perhaps even including one or two our own backbenchers).

It does not seem to me to be worth it, so I come down in favour of the usual procedure.

/I am

The Rt Hon The Lord Hailsham of St Marylebone CH FRS DCL
Lord Chancellor
House of Lords

I am copying this letter to the other members of L and of OD(E), to the First Parliamentary Counsel and to Sir Robert Armstrong.

yours ever

Ian

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MR MINNAY
LORD BRIDGES

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HD/EID( )(4)
HD/NEWS
HD/FRD
HD/....
HD/....
HD/....

PLUS FCO

Mr Goodenough ECD (1)
Mr Pirney

CABINET OFFICE	D.O.T.	No 10 D Street
M D M FRANKLIN MR D M ELLIOTT MR N C A WILLIAMS Mr. Armstrong		Mr Alexander.
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SIR K COUZENS MR ASHFORD	MR B D HAYES	

PP THE HAGUE

RR DUBLIN

GRS 2785
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FM UKREP BRUSSELS 061511Z MAY 80
TO F L A S H FCO
TELEGRAM NUMBER 2283 OF 6 MAY
INFO IMMEDIATE ROME, PARIS, BONN, PRIORITY COPENHAGEN, THE HAGUE,
ROUTINE DUBLIN,
INFO SAVING BRUSSELS, LUXEMBOURG.

FOREIGN AFFAIRS COUNCIL, 6 MAY

EUROPEAN COUNCIL FOLLOW-UP

SUMMARY

1. COUNCIL AGREED TO HOLD DISCUSSIONS ON UK BUDGET PROBLEM, FISHERIES AND ENERGY AT INFORMAL MEETING IN NAPLES ON 17 - 18 MAY, MINISTER TO BE ACCOMPANIED BY COREPER OR OFFICIALS FROM CAPITALS. PRESIDENCY STRESSED NEED FOR SOLUTIONS ON ALL LINKED ISSUES BY END MAY BECAUSE OF THE IMPORTANCE MEMBER STATES ATTACHED TO EARLY ACTION ON AGRICULTURAL PRICES. FRANCE AND GERMANY SAID THEIR LUXEMBOURG PROPOSALS WERE

OFF THE TABLE: BUT OTHERS SEEMED READY TO TAKE LUXEMBOURG AS THE STARTING POINT. COMMISSION TO CONSIDER PRODUCING NEW COMMUNITY BUDGET FORECASTS FOR 1980, 1981, AND 1982. A FORMAL COUNCIL TO TAKE DECISIONS ENVISAGED BEFORE THE END OF MAY.

DETAIL

2. COLOMBO (ITALIAN PRESIDENCY) REPORTED AS FOLLOWS ON WHAT HAD HAPPENED AT LUXEMBOURG AND ASKED FOR COLLEAGUES' VIEWS ON HOW TO RESOLVE THE CRISIS:

A) BUDGET: AT THE BEGINNING OF THE EUROPEAN COUNCIL IT HAD BEEN PROPOSED TO TAKE 1979 AS BASIS FOR UK NET CONTRIBUTION, WHICH WOULD THEN BE STABILISED FOR A PERIOD TO BE DEFINED. THIS MECHANISM WAS NOT AGREED BECAUSE OF DIFFERENCES OVER THE STARTING POINT (WHETHER 1979 ALONE OR THE PERIOD 1977-79). THERE HAD ALSO BEEN A PROPOSAL TO SETTLE FOR 3 YEARS AT 1000 MUA RETURN FOR THE UK, BUT THIS WAS NOT ACCEPTED BECAUSE IT DID NOT DEAL WITH THE LIKELIHOOD OF THE UK CONTRIBUTION INCREASING. THERE HAD THEN BEEN A PROPOSAL TO SETTLE FOR A FIXED FIGURE OVER 1 YEAR OF 1250 MUA REFUND FOR THE UK, WHO WOULD AS A RESULT BEAR A NET CONTRIBUTION OF 538 MUA IN 1980 (ALTHOUGH COLOMBO WAS NOT SURE WHAT EXACTLY HAD HAPPENED). THIS PROPOSAL WAS ALSO REFUSED BECAUSE THE UK WANTED TO AVOID HAVING AN ARGUMENT ON THE BUDGET EVERY YEAR. IT WAS THEN PROPOSED TO FIX THE UK CONTRIBUTION FOR 1980, WITH THE COMMISSION REVIEWING THE SYSTEM AND OFFERING SUGGESTIONS AS TO HOW THE UNACCEPTABLE SITUATION COULD BE CORRECTED IN THE LONGER-TERM. IF THE COUNCIL COULD NOT SETTLE ON THESE SUGGESTIONS IN 1980, THEN THE SAME SUM WOULD BE PAID TO THE UK IN 1981 AS IN 1980. THIS HAD BEEN A GREY AREA IN NEGOTIATIONS. SUGGESTIONS HAD BEEN MADE FOR ADJUSTING THE SECOND YEAR CONTRIBUTION, BUT NO AGREEMENT WAS REACHED.

B) AGRICULTURAL PRICES: THERE HAD BEEN NO AGREEMENT OR AT LEAST ONLY AGREEMENT IN PRINCIPLE, THE UK MAINTAINING A NEGATIVE POSITION. THERE WAS THEREFORE NO 1980 BUDGET IN SIGHT.

C) SHEEPMEAT: THE HEADS OF GOVERNMENT HAD ONLY REACHED A HALF AGREEMENT, THE QUESTION OF INTERVENTION BEING UNSOLVED.

D) FISH: NO AGREEMENT HAD BEEN REACHED ON WHAT WAS TO BE DONE FOR CERTAIN AREAS. MUCH REMAINED TO DO.

3. REACTIONS WERE AS FOLLOWS:

A) SIMONET (BELGIUM): REVIEWED THE DIFFERENT POSSIBILITIES AVAILABLE FOR TACKLING THE CRISIS, EG INVITING COMMISSION TO MAKE PROPOSALS, BILATERAL TALKS, AGREEING A FIXED SUM ON GISCARD'S/SCHMIDT LINES. QUESTIONED WHETHER SETTLEMENT COULD BE REACHED WITHOUT OVERTURNING THE COMMUNITY'S ARRANGEMENTS.

B) DOHNANYI (FRG): EXISTING NET UK BURDEN FOR 1980 AND POSSIBLY SUBSEQUENT YEARS UNFAIR. THEREFORE SOME ALLEVIATION RIGHT, BUT SCHMIDT'S LAST OFFER ''WITHDRAWN AND NO LONGER STANDS''. NEVERTHELESS GERMANY REGRETTED ABSENCE OF AGREEMENT AND WANTED A FAIR SOLUTION FOR A FORESEEABLE PERIOD OF TIME (POSITIONS HAD BEEN RELATIVELY CLOSE TOGETHER ON DURATION AND AMOUNT). MEANWHILE AGREEMENT MUST BE REACHED ON AGRICULTURAL PRICES IN ACCORDANCE WITH COMMUNITY RULES, IE NO NATIONAL ACTION. DIVERGING NATIONAL MEASURES WOULD CREATE NEW PROBLEMS. PERCENTAGE OF PRICES INCREASE WOULD NOT GREATLY AFFECT UK CONTRIBUTION. GERMANY WOULD THEREFORE STICK TO 5 PERCENT. MUST BE A SOLUTION OF BUDGET PROBLEM BEFORE VENICE. 17/18 MAY INFORMAL FOREIGN MINISTERS MEETING IN NAPELS COULD CONTRIBUTE TO SOLUTION, WITH COREPER MEETING IN PARALLEL AFTER AN INTRODUCTORY 2 HOUR MINISTERIAL DEBATE ON THE BUDGET AND AGRICULTURAL PRICES. MEANWHILE COREPER SHOULD DRAW UP A REPORT ON PARALLEL ISSUES TO SHOW HOW CLOSE AGREEMENT WAS. AFTER NAPLES THERE COULD PERHAPS BE A FURTHER FOREIGN MINISTERS MEETING BEFORE THE END OF MAY.

C) LENIHAN (IRELAND): COMMUNITY INSTITUTIIONS SHOULD SETTLE, NOT THE VENICE EUROPEAN COUNCIL. AGREED THAT COREPER COULD MEET IN PARALLEL WITH FOREIGN MINISTERS ON 17/18 MAY. PRESIDENCY SHOULD DRAW UP PAPER ON THE BUDGET. EVEN IF PROPOSALS MADE AT LUXEMBOURG WITHDRAWN, LET COMMUNITY STILL ACT AS IF THEY WERE STILL ON THE TABLE. ON MONEY, POSITIONS NOT FAR APART. AS REGARDS AGRICULTURAL PRICES THE COUNCIL SHOULD STICK TO THE POSITION REACHED BY THE EIGHT AND PRICES SHOULD BE FIXED AFTER THE 17/18 MAY MEETING. ANOTHER FOREIGN MINISTERS MEETING IN MAY MIGHT ALSO BE USEFUL.

D) SIR I GILMOUR (UK): VIRTUAL AGREEMENT AT LUXEMBOURG THAT UK NET CONTRIBUTION IN 1980 SHOULD BE LIMITED TO 538 MUA. DIFFICULTY LAY IN FINDING RIGHT COMBINATION OF AMOUNT AND DURATION. LAST PROPOSAL BY MRS THATCHER INVOLVED AN ARRANGEMENT FOR SHARING THE BURDEN OF FUTURE YEARS BY RELATING

THE NET CONTRIBUTION FOR 1981 AND 82 TO THE RISE IN THE OVERALL SIZE OF THE BUDGET. PROBLEM SHOULD BE SETTLED IF POSSIBLE WELL BEFORE VENICE. AS REGARDS AGRICULTURAL PRICES, DECISION WILL HAVE MAJOR EFFECT ON UK NET CONTRIBUTION, EVEN MORE IN 1981 AND 1982 THAN IN 1980. TWO ISSUES MUST THEREFORE BE SETTLED AT SAME TIME. AGREED WITH DOHNANYI PROPOSAL FOR PARALLEL MEETING OF OFFICIALS ON 17/18 MAY AND FURTHER FOREIGN MINISTERS' MEETING BEFORE END OF MONTH. UP TO PRESIDENCY TO TAKE INITIATIVE.

E) FRANCOIS-PONCET (FRANCE): FOREIGN AFFAIRS COUNCIL SHOULD DEAL WITH DAY-TO-DAY PROBLEMS OF THE COMMUNITY. VENICE SHOULD BE DIFFERENT FROM RECENT EUROPEAN COUNCILS. COULD AGREE TO DOHNANYI'S IDEAS ON PROCEDURE. AS REGARDS AGRICULTURAL PRICES, URGENT HUMAN PROBLEM NEEDED TO BE SOLVED AND COMMUNITY MUST THEREFORE RESPECT AGRICULTURAL DEADLINES. THE AGREEMENT BY THE EIGHT SHOULD THEREFORE ENTER INTO FORCE RAPIDLY. UK BUDGET PROBLEM ALSO NEEDED URGENT SOLUTION, BUT GISCARD'S PROPOSALS NO LONGER ON THE TABLE. THE HIGHER THE AMOUNT, THE SHORTER THE DURATION. IF THERE WERE A HIGH AMOUNT AND A LONG DURATION, THE COMMUNITY'S RULES WOULD BE BROUGHT INTO QUESTION.

F) THORN (LUXEMBOURG): FOREIGN AFFAIRS COUNCIL SHOULD TAKE ITS RESPONSIBILITIES. COULD NOT A SOLUTION BE FOUND IMMEDIATELY? IF NOT, THEN AGREED WITH DOHNANYI'S PROPOSAL FOR PROGRESS. A FEW COLLABORATORS SHOULD BE PRESENT ON 17/18 MAY. LINKAGE ISSUES SHOULD BE DEFIND. (MRS THATCHER HAD SAID THERE WERE MANY UNACCEPTABLE POINTS ON THE OTHER PAPERS AT LUXEMBOURG.)

G) VAN DER MEI (NETHERLANDS): AGREED WITH DOHNANYI'S PROPOSALS. ASKED IF COMMISSION PROPOSAL (IE MIXTURE OF FINANCIAL MECHANISM CORRECTION AND ARTICLE 235 REGULATION) STILL UPHELD. COMMISSION SHOULD HAVE FURTHER CONTRIBUTION TO MAKE.

H) ERSBOELL (DENMARK): DANGEROUS TENDENCY IN EUROPEAN COUNCIL TO TREAT THE PROBLEM AS PURELY FINANCIAL, WITH SUGGESTIONS BEING MADE FOR RECONSIDERING COMMUNITY'S FINANCIAL ARRANGEMENTS. REAL PROBLEM IS COMMUNITY POLICIES AND FACT THAT CAP NOT AS INTERESTING TO UK AS OTHER MEMBER STATES , WITH OTHER POLICIES YIELDING TOO LITTLE FOR UK IN COMPARISON WITH CAP YIELDS FOR OTHER COUNTRIES. DISCUSSION SO FAR DEALT ONLY WITH THE SYMPTOMS. COMMUNITY MUST TACKLE REAL PROBLEMS OF WHERE TO GO: SHOULD COST

MOST PRESSING REAL PROBLEMS OF WHERE TO GO? SHOULD COST OF CAP BE DIMINISHED? SHOULD MORE MONEY BE AVAILABLE AND ON WHAT CONDITIONS FOR OTHER POLICIES? BUT NO QUICK RESULTS FORESEEABLE AND MEANWHILE SHORT TERM SOLUTION WERE REQUIRED. TO EXTEND THIS SHORT-TERM SOLUTION INTO THE LONGER-TERM WOULD BE TO ADMIT LONG TERM FAILURE IN ADVANCE. COMMUNITY SHOULD CONCENTRATE AGAIN ON PRESIDENCY PRINCIPLES PAPER: SHOULD DEAL WITH THE SHORT TERM PROBLEM (IN THE NEXT FEW WEEKS) AND LONG TERM PROBLEMS VERY SOON AFTER. IF THIS NOT DONE, EVEN MORE DIFFICULT PROBLEMS WOULD ARISE LATER WITH ENLARGEMENT.

I) ORTOLI (COMMISSION): COMMUNITY INSTITUTIONS SHOULD FIND THE SOLUTION, AND AGRICULTURAL PRICES BE SETTLED IN COMMUNITY FRAMEWORK. AGREED WITH DOHNANYI PROPOSALS. ON BUDGET, COMMISSION PAPER STILL ON THE TABLE. READY TO PARTICIPATE FULLY AND IF NECESSARY, TO PRESENT PROPOSALS, BUT COULD NOT GO FURTHER FOR THE MOMENT.

4. COLOMBO, SUMMING UP THIS PART OF THE DISCUSSION SAID THAT ALL MEMBERS OF THE COUNCIL WERE AGREED ON THE NEED TO OVERCOME THE CRISIS BEFORE THE END OF MAY, WHEN THE AGRICULTURAL MARKETING YEAR ENDED. THE ISSUES OF AGRICULTURAL PRICES AND THE BUDGET WERE LINKED AND SHOULD THEREFORE BE SETTLED AT THE SAME TIME. THE AGRICULTURAL COUNCIL WOULD BE WORKING TO COMPLETE ITS PROPOSALS, PARTICULARLY ON SHEEPMEAT. OTHER ISSUES WERE FOR THE FOREIGN AFFAIRS COUNCIL TO SETTLE.

5. AS REGARDS PROCEDURE THERE SHOULD BE INTENSIVE BILATERAL DISCUSSIONS LEADING UP TO THE NAPLES MEETING OF FOREIGN MINISTERS. COREPER COULD ALSO DISCUSS THE ISSUES AND PERHAPS MEET JOINTLY WITH FOREIGN MINISTERS. THERE SHOULD BE A FURTHER FORMAL MEETING OF THE FOREIGN AFFAIRS COUNCIL AT THE END OF MAY AND IT MIGHT BE NECESSARY TO PUT OFF THE PROPOSED TURKISH ASSOCIATION COUNCIL ON 29/30 MAY IN ISTANBUL TO THE SECOND HALF OF JUNE.

6. ON SUBSTANCE DECISIONS WERE NEEDED ON:

(A) THE UK'S BUDGET CONTRIBUTION.

(B) AGRICULTURAL PRICES.

(C) A SHEEPMEAT REGULATION.

(C) A SHEEPMEAT REGULATION.

(D) A FISHERIES REGULATION.

(E) A DOCUMENT ON ENERGY.

AGREEMENT WOULD BE NEEDED ON THE FUNDAMENTAL PRINCIPLES FOR COMMUNITY REGULATIONS ON (C) AND (D) , IF NOT ON THE REGULATIONS THEMSELVES. FOREIGN MINISTERS MUST COME TO NAPLES WITH A NEGOTIATING MARGIN. ON THE UK BUDGET PROBLEM THERE WAS A CHOICE BETWEEN LOWER FIGURES FOR A LONGER PERIOD AND, AS AT LUXEMBOURG, HIGHER FIGURES FOR A SHORTER PERIOD COMBINED WITH A REQUEST TO THE COMMISSION FOR PROPOSALS ON A LONGER TERM SOLUTION.

7. SIR IAN GILMOUR SAID HE AGREED TO COLOMBO'S 5-POINT LIST. THERE WAS A STRONG SUBSTANTIVE LINK BETWEEN AGRICULTURAL PRICES AND THE UK BUDGET PROBLEM, THOUGH IT WAS NOT THE UK WHICH HAD LINKED THEM. WE WERE READY TO MAKE PROGRESS ON ALL THE ISSUES, THOUGH NOT ALL WERE EQUALLY RIPE FOR DECISION. FOR EXAMPLE PROGRESS IN THE FISHERIES COUNCIL WOULD REQUIRE CAREFUL PREPARATION. WHEN WOULD THE COMMISSION BE READY TO MAKE PROPOSALS? (ORTOLI SAID HE WOULD ASK).

8. ERSBOELL STRESSED THE NEED FOR PROGRESS ON FISHERIES. BUT THIS SUBJECT WOULD NOT BE READY BEFORE THE END OF MAY; AN EARLY MEETING OF THE FISHERIES COUNCIL MIGHT NOT HELP. ON THE BUDGET THE COMMISSION SHOULD PUT FORWARD THE BEST POSSIBLE ESTIMATES FOR OUTTURN OF THE COMMUNITY BUDGET IN 1980, 81 AND 82. THE 5-POINTS SHOULD INCLUDE THE FUTURE DEVELOPMENT OF COMMUNITY POLICIES. OFFICIALS FROM CAPITALS SHOULD BE INVOLVED IN PREPARATIONS FOR NAPLES.

9. SIMONET SAID THAT THE PROVISIONAL AGREEMENT ON THE CAP SHOULD NOT BE REOPENED. THE COMMUNITY FACED A REAL DILEMMA. EITHER THE UK DEMANDS WENT BEYOND WHAT OTHER MEMBER STATES COULD AFFORD: OR THEY INVOLVED OVERTURNING THE WHOLE COMMUNITY FINANCING SYSTEM, WHICH WAS NOT ACCEPTABLE.

10. DOHNANYI AGREED THAT THERE SHOULD BE NEW ESTIMATES FOR 1980 1981 AND 1982, THOUGH DOUBTING WHETHER THEY WOULD HELP. THE NEED FOR PARALLELISM SHOULD NOT BE

UNDERESTIMATED. FISHERIES WERE VERY IMPORTANT TO GERMANY. IT WOULD BE HELPFUL TO NAIL DOWN THE STATE OF CONSENSUS REACHED IN THE NEGOTIATIONS AFTER LUXEMBOURG AND IDENTIFY THE REMAINING GAPS. A COMMISSION OR PRESIDENCY PAPER ON THIS WOULD BE HELPFUL. IT WOULD BE A MISTAKE TO TRY TO DO TOO MUCH BEFORE THE END OF MAY, EG ON PRINCIPLES FOR THE FUTURE OF THE COMMUNITY BUDGET.

11. ORTOLI AGREED TO LOOK AGAIN AT THE FIGURES, BUT SAID IT WAS NOT PRUDENT TO REOPEN PREVIOUS BATTLES ON THEM.

12. SUMMING UP COLOMBO STRESSED THE DEADLINE OF 31 MAY FOR AGRICULTURAL PRICES. THERE HAD BEEN AGREEMENT IN THE RUGGIERO GROUP ON A MANDATE TO THE COMMISSION TO MAKE PROPOSALS BEFORE THE END OF 1981 ON REDRESSING BUDGETARY IMBALANCES. THIS WAS DIFFERENT FROM REVISING THE ENTIRE COMMUNITY FINANCIAL SYSTEM.

13. IN A FURTHER BRIEF DISCUSSION ON PROCEDURE SIR I. GILMOUR SUPPORTED ERSBOELL OVER PRESENCE OF THE RUGGIERO GROUP IN NAPLES. BERNARD RAYMOND FAVOURED COREPER. DOHNANYI AGREED, BUT SAID IT WAS UP TO EACH MINISTER TO DECIDE WHO SHOULD ACCOMPANY HIM. COLOMBO WILL REFLECT FURTHER.

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GR 1150
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FRAME GENERAL
FM UKREP BRUSSELS 061030Z MAY 80
TO IMMEDIATE F C O
TELEGRAM NUMBER 2276 OF 6 MAY.
INFO PRIORITY ROME AND BONN
INFO ROUTINE COPENHAGEN, THE HGAGUE, DUBLIN AND PARIS
INFO SAVING BRUSSELS AND LUXEMBOURG.

Pure procedure than substance but you may care to glance.

EUROPEAN COUNCIL : FOLLOW-UP : BILATERALS WITH PRESIDENCY AND FRG.

1. THE LORD PRIVY SEAL HAD A BILATERAL MEETING WITH COLOMBO AFTER THE ANDEAN PACT DINNER IN BRUSSELS ON MONDAY 5 MAY. RUGGIERO, FRANKLIN AND I WERE PRESENT.

2. COLOMBO SAID THE OFFERS MADE BY SCHMIDT AND GISCARD DURING THE EUROPEAN COUNCIL WERE NO LONGER ON THE TABLE. THE TASK OF THE NEXT FEW WEEKS WOULD BE TO GET THEM BACK ON THE TABLE, THE CLEAR IMPLICATION BEING THAT THIS WOULD ONLY BE POSSIBLE IF WE FOR OUR PART STUCK TO THE LAST POSITION WE HAD REACHED IN LUXEMBOURG. IN THAT EVENT, IT WOULD BE POSSIBLE TO EXPLOIT ''THE SMALL MARGIN'' WHICH EXISTED FOR NEGOTIATION ON THE FIGURES. OF THE FOUR OTHER ISSUES WHICH WERE OUTSTANDING, HE FELT THAT IT SHOULD BE POSSIBLE FOR THE

WERE OUTSTANDING, HE FELT THAT IT SHOULD BE POSSIBLE FOR THE AGRICULTURE COUNCIL TO FIND TECHNICAL SOLUTIONS ON SHEEPMEAT AND FISHERIES: ON ENERGY ALL THAT WAS REQUIRED WAS AN EXPRESSION OF SOLIDARITY: AND AS REGARDS CAP PRICES HE TRUSTED THAT WE COULD ACCEPT THE PROPOSALS OF THE EIGHT IN THE CONTEXT OF A BUDGET SETTLEMENT.

3. THE LORD PRIVY SEAL SAID WE WERE READY TO COOPERATE IN FINDING SOLUTIONS TO THE OUTSTANDING ISSUES DURING THE NEXT FEW WEEKS, IF POSSIBLE BEFORE THE VENICE EUROPEAN COUNCIL. ON THE BUDGET ISSUE, THE NEGOTIATIONS HAD REALLY BROKEN DOWN ON THE QUESTION OF DURATION. WE REGARDED AN ARRANGEMENT FOR THREE YEARS AS THE MINIMUM, AND THIS WAS THE PERIOD WHICH RIGHT UP TO THE LUXEMBOURG MEETING OUR PARTNERS HAD BEEN URGING US TO ACCEPT. WE WERE NOT CONVINCED THAT IT WAS REALISTIC TO TREAT FISHERIES IN THE SAME TIMESCALE AS THE OTHER ISSUES. WE WERE ANXIOUS TO MAKE PROGRESS BUT FOR A MEETING OF THE FISHERIES COUNCIL BE BE USEFUL, THERE WAS NEED FOR THE COMMISSION TO COME FORWARD WITH PROPOSALS.

4. SIGNOR COLOMBO SAID HE WOULD CONSIDER WHAT WE HAD SAID ON FISHERIES. ON THE BUDGET, HE DID NOT BELIEVE THAT IT WOULD BE POSSIBLE TO GO BEYOND TWO YEARS WHICH HAD BEEN UNDER DISCUSSION AT THE END. THAT WOULD NOT BE CONSISTENT WITH THE LOGIC OF THE GISCARD/SCHMIDT PROPOSAL WHICH INCLUDED A FAR REACHING REVIEW DURING THE REMAINDER OF 1980. HE DID NOT THINK THE ARGUMENT THAT THE FINANCIAL MECHANISM ALREADY RAN UNTIL THE END OF 1982 WAS A PROMISING ONE.

5. ON PROCEDURE, SIGNOR COLOMBO WAS NOT VERY PRECISE. HE SAID THAT HE ENVISAGED A FRANK TALK AMONG MINISTERS OVER LUNCH ON 6 MAY: AND THEN MAKING USE OF THE INFORMAL MEETING OF FOREIGN MINISTERS IN NAPLES ON 16/17 MAY. THE LORD PRIVY SEAL CONFIRMED THAT WE WERE READY TO CONTINUE DISCUSSIONS AT THE LEVEL OF FOREIGN MINISTERS. IT WOULD BE IMPORTANT THAT, IN THE MEANTIME, NO ATTEMPT WAS MADE IN THE AGRICULTURE COUNCIL TO EMBARK ON UNORTHODOX PROCEDURES.

6. THE LORD PRIVY SEAL ALSO HAD A BILATERAL MEETING WITH DOHNANYI THIS MORNING AT THE LATTERS REQUEST IMMEDIATELY BEFORE THE FOREIGN AFFAIRS COUNCIL.

7. DOHNANYI AGREED THAT DISCUSSION AT TODAY'S COUNCIL SHOULD BE LIMITED TO PROCEDURE, AND WOULD BE BEST DISCUSSED IN A RESTRICTED SESSION AN THE COUNCIL RATHER THAN IN AN

SHOULD BE LIMITED TO PROCEDURE, AND WOULD BE BEST DISCUSSED IN A RESTRICTED SESSION IN THE COUNCIL RATHER THAN IN AN INEVITABLY UNSTRUCTURED WAY OVER LUNCH. HE WONDERED WHETHER THE BEST DAY FORWARD MIGHT NOT BE FOR THE COUNCIL SECRETARIAT TO BE ASKED TO DRAW UP A DOCUMENT WITH AN ACCOUNT OF WHAT HAD BEEN AGREED OR ALMOST AGREED IN LUXEMBOURG, COVERING ALL THE ELEMENTS BEING DISCUSSED IN PARALLEL WITH THE BRITISH BUDGET CONTRIBUTION PROBLEM AS WELL AS THE LATTER, AS A MEANS OF DEFINING THE GAPS THAT REMAINED TO BE FILLED. HE WAS CONCERNED THAT FOREIGN MINISTERS WHEN THEY MET INFORMALLY AT NAPLES ON 17 MAY WOULD NOT HAVE TIME TO DO JUSTICE TO THE BRITISH BUDGET PROBLEM SINCE THEY WOULD HAVE DIFFICULT DISCUSSIONS ON IRAN, THE OLYMPICS, AND THE MIDDLE EAST. PERHAPS THE RUGGIERO GROUP COULD MEET AT THE SAME TIME AS THE FOREIGN MINISTERS AND WORK ON THE ISSUE ON THE BASIS OF A SHORT DISCUSSION AT THE BEGINNING OF THE MINISTERS' MEETING WITH A VIEW TO REPORTING PROGRESS AT THE END OF THE DAY. ALTHOUGH HE AGREED THAT IT MIGHT BE NECESSARY TO HAVE AN EXTRA FOREIGN AFFAIRS COUNCIL BEFORE THE END OF MAY, HE DID NOT THINK THAT THE 31 MAY DEADLINE FOR SETTLING AGRICULTURAL PRICES WAS SO VITAL AS THE PRECLUDE STOPPING THE CLOCK UNTIL THE SCHEDULED FOREIGN AFFAIRS COUNCIL ON 2/3 JUNE.

8. ON SUBSTANCE, DOHNANY MADE A PASSING REFERENCE TO SCHMIDT HAVING WITHDRAWN WHAT HAD BEEN ON THE TABLE, BUT WITH NO GREAT EMPHASIS. HE MERELY REMARKED THAT IT WAS DIFFICULT TO SEE HOW THE REMAINING GAPS COULD BE FILLED. THE LORD PRIVY SEAL SAID THAT THE MAJOR DIFFICULTY FOR US WAS DURATION.

9. DOHNANYI ALSO RAISED THE QUESTION OF BUTTER SALES TO THE SOVIET UNION. HE SAID THAT SCHMIDT'S REACTION TO THE TRANSACTION LAST WEEK HAD BEEN JUST AS FURIOUS AS THAT OF THE BRITISH GOVERNMENT, BUT THAT HE HAD NOT MADE IT PUBLIC, BECAUSE HE REALISED THAT WHAT HAD HAPPENED WAS IN LINE WITH THE 15 JANUARY COUNCIL DECISION AND WAS INEVITABLE, IF REGRETTABLE, CONSEQUENCE OF THE WAY THE CAP WORKED.

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GRS 420
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FM BONN 021532Z MAY 80
TO IMMEDIATE FCO
TELEGRAM NUMBER 378 OF 2 MAY
INFO IMMEDIATE UKREP BRUSSELS
INFO PRIORITY OTHER EC POSTS

Read in full.

BONN TELS NO 374 AND 375: EUROPEAN COUNCIL: LUXEMBOURG

1. THREE MAIN POINTS EMERGEWFROM MY TALK WITH VON DOHNANYI. FIRST, CONFIRMATION THAT THE SCHMIDT OFFER HAS BEEN WITHDRAWN AND THAT THE FEDERAL GERMAN GOVERNMENT WANT IT TO BE SEEN TO HAVE BEEN WITHDRAWN. BOTH SCHMIDT'S OFFICE AND MATTHOEFER IN PERSON ARE NOW ON PUBLIC RECORD TO THIS EFFECT. SCHMIDT HAD A ROUGH RIDE IN CABINET FROM MATTHOEFER. HE HAS ENGAGED HIS PERSONAL PRESTIGE AND FAILED. SECONDLY, DOHNANYI'S ADMISSION THAT THE GERMANS AS WELL AS THE FRENCH NEED A SATISFACTORY FARM PRICE REVIEW FOR ELECTORAL PURPOSES THIS YEAR: I BELIEVE THIS TO BE TRUE AND IT GIVES US A VERY STRONG NEGOTIATING CARD. AND THIRDLY, DOHNANYI'S SUGGESTION THAT IT IS NOW UP TO US TO TAKE STOCK AND COME FORWARD WITH A GENERALLY ACCEPTABLE PROPOSAL IN THE LIGHT OF WHAT WE KNOW ABOUT OUR OWN REQUIREMENTS AND THE VIEWS OF OUR PARTNERS.

2. SCHMIDT'S POSITION IS NOT MADE ANY THE EASIER BY THE MOOD IN THE COUNTRY AT LARGE. HIS DISAPPOINTMENT IS WIDELY SHARED. BUT HIS IRRITATION IS LESS SO. THE FACT THAT CAP EXPENDITURE IS THE CAUSE NOT ONLY OF THE QUOTE BRITISH PROBLEM UNQUOTE BUT ALSO OF THE WHOLE MALAISE OF THE COMMUNITY IS NOW WELL UNDERSTOOD. THAT INFLUENTIAL SECTIONS OF THE GERMAN PRESS FIRMLY EXPRESSED THIS UNDERSTANDING IN THE IMMEDIATE AFTERMATH OF THE SUMMIT IS SIGNIFICANT IN CONVERSATION WITH THE MINISTER (E) AFTER THE SUMMIT, THE VICE PRESIDENT OF THE BUNDESBANK AND OTHER BANKERS WERE HIGHLY CRITICAL OF THE CAP AND OF THE EXTENT OF ERTL'S LEVERAGE OVER SCHMIDT. THEY COULD WELL UNDERSTAND WHY THE PRIME MINISTER HAD NOT SETTLED FOR A ONE YEAR AGREEMENT. I HAVE HEARD OTHER EXPRESSION OF SNEAKING ADMIRATION FROM INDUSTRIALISTS AND EVEN FROM GOVERNMENT SOURCES.

3. AS SEEN FROM BONN, THIS PUTS US IN A VERY STRONG NEGOTIATING POSITION. I AM QUITE CERTAIN THAT THE GERMANS BADLY NEED A FARM PRICE SETTLEMENT. AND WHILE IT WILL BE DIFFICULT FOR THEM TO COME OFF THEIR PUBLICLY STATED POSITION THAT THE SCHMIDT OFFER HAS BEEN WITHDRAWN, I AM BY NO MEANS CONVINCED THAT THEY WOULD NOT BE PREPARED TO GO BACK TO A POSITION NEAR IT OR PERHAPS SLIGHTLY LESS FOR A LONGER DURATION, IF THEY COULD BE SATISFIED THAT THEY WERE GOING TO GET WHAT THEY NEEDED ON AGRICULTURE. A TRADE-OFF SEEMS FROM BONN TO BE IN THE MAKING. IT WILL OF COURSE HAVE TO BE PUT TOGETHER OUTSIDE THE EUROPEAN COUNCIL, BECAUSE SCHMIDT WILL FACE ACCUSATIONS OF PAYING TWICE OVER - ONCE FOR THE BRITISH, AND AGAIN FOR FRENCH FARMERS. BUT THE LORD PRIVY SEAL WILL HIMSELF BE ABLE TO FORM HIS OWN JUDGEMENT ON THIS WHEN HE SEES DOHNANYI EARLY NEXT WEEK AT THE FOREIGN AFFAIRS COUNCIL.

WRIGHT

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Euro Pol

10 DOWNING STREET

From the Private Secretary

2 May 1980

BF 9/5/80

Dear George,

Community Budget: the Next Steps

As you know, the Foreign and Commonwealth Secretary discussed with the Prime Minister this afternoon his minute to her of 1 May on this subject. It was agreed that an attempt to reach a suitable agreement with the other members of the Community on the problems covered in Lord Carrington's minute should continue. It was also agreed that it would be desirable that an agreement should be finalised as soon as possible i.e. preferably before but certainly at the Venice meeting of the European Council. However, the Prime Minister stressed that improvements would have to be secured in the overall package which was on offer in Luxembourg.

As regards the period immediately ahead, it was agreed that it would be wrong for United Kingdom representatives to appear over eager in the search for a settlement. No bilateral activity was to be initiated by us in the next few days.

Foreign Affairs Council

The Lord Privy Seal should encourage Signor Colombo to pursue a settlement and should be prepared to discuss with him procedural proposals. However, it would be too early to get into questions of substance in relation to the budget.

The Lord Privy Seal will however wish to be aware of the Prime Minister's view that the figure of 538 meua proposed in Luxembourg for the United Kingdom's new contribution for 1980 is acceptable; that it provides a suitable base line for our contribution in subsequent years; and that any agreement will have to be for a period of at least three years "subject to review" at the end of that time.

/Agricultural Council

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GC

Agricultural Council

It was agreed that at next week's Agricultural Council the Minister of Agriculture should not attempt to re-open the terms of the farm price package agreed in Luxembourg. However he should, of course, make it clear that the United Kingdom maintained its reserve on the package. Mr Walker should be prepared to pursue the detailed points summarised in paragraph 2 of his letter of 1 May to the Foreign and Commonwealth Secretary. He should continue to seek improvements in the text on mutton and lamb and to make it clear that the present text is unacceptable. If an attempt is made to force through the farm price package, Mr Walker should make it plain that we are ready to invoke the Luxembourg compromise and that "very serious consequences" would follow any attempt to frustrate our invocation of the compromise.

Mr Walker need not oppose adjustments in the Green Rate for the franc and the lira.

The Prime Minister wishes to have new papers prepared on the handling of the negotiations on fish and on sheepmeat. These should be available by Friday, 9 May. I should be grateful if Garth Waters (MAFF), to whom I am sending a copy of this letter, would put this work in hand and ensure that the other interested Departments are consulted. The Prime Minister would also be grateful for a paper discussing whether or not the impact of the farm price package on the housewife could not be moderated by an adjustment in the Green Rate of the pound.

I am also sending copies of this letter to Michael Richardson (FCO), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

G G H Walden, Esq
Foreign and Commonwealth Office

4.

Prime Minister

Ref. A02080

MR ALEXANDER

COMMUNITY BUDGET: THE NEXT STEPS

1. The Prime Minister has called a meeting to discuss the Foreign and Commonwealth Secretary's minute of 1 May. Mr Walker's minute of 1 May to the Foreign and Commonwealth Secretary is also relevant. You may feel that the Prime Minister hardly needs a brief from me on something with which she is so closely familiar; but I submit this in case it may be useful.

2. The aftermath of Luxembourg carries both dangers and opportunities for us. As noted in the Cabinet this morning, there is a risk that President Giscard and Chancellor Schmidt will seek to draw back from the offers they made in Luxembourg on the budget. The smaller but richer member states are also going to be very reluctant to follow the Franco-German proposals if they are coupled with the idea of a future limit on the net benefits they gain from the budget. The opportunity lies in the considerable advance made in Luxembourg and the general wish to settle this matter given the international situation.

3. To minimise the risks and make the most of the opportunities, we need to give early indications of our readiness to help the Presidency take matters forward. But there is probably not much room for manoeuvre; and the more we seek to improve the offer on the budget, the more difficult it will be to secure an ideal settlement on fisheries and sheepmeat and vice versa. Those who have to carry the process forward will need to be clear as to our precise negotiating limits in all three areas.

4. The Foreign and Commonwealth Secretary's minute is convenient as the basis for discussion (referring to Mr Walker's minute as necessary). The Prime Minister may like to invite him to introduce it. Then take substance - budget, CAP prices, sheepmeat and fisheries; then procedure.

5. On the budget, the Foreign and Commonwealth Secretary suggests we should explore two options. Officials have tried to estimate the difference between our approach and the French for 1981. Mr Jenkins said it was about 150 meua. He was about right on the last published Commission figures. But it is clear that the outturn will be substantially higher and up to the 1 per cent ceiling. On this basis, our net contribution would be 680 meua if it rose in proportion to the Budget but about 1150 meua by the Giscard method. The difference would be even greater in 1982, for which it is impossible to produce realistic forecasts. It points to the advantage of sticking to a limit on the net contribution even if we had to concede a slightly higher figure, rather than switching to a flat rate-refund.

6. On CAP prices, Mr Walker suggests that at the Agriculture Council next week he should maintain his general reserve but take part in the discussion on all the questions which were left unresolved in the Luxembourg document. The Foreign Secretary concurs. Mr Walker also suggests that he should not block devaluations of the French franc and the Italian lire. If we take this line, it looks as though the French will not press at this stage for action by the Eight. The crucial date is 31 May when the present regulations expire. But it is clear that, if any attempt to vote were made, we should have to vote against, and if necessary to invoke the Luxembourg compromise. If they nevertheless insisted, Mr Walker would have to report back.

7. On Sheepmeat (paragraph 5 III), the Minister of Agriculture might be invited to set out more fully our final fallback position in relation to its negotiability with the French. Could we in the last resort accept export refunds on condition that they were only introduced after prior consultation with the New Zealanders?

8. On fisheries, the Prime Minister will want to ask the views of the Minister of Agriculture. Up to the Luxembourg European Council we took the view that discussion on fisheries was premature. This will no longer be tenable after the discussion which took place there. The French and the Germans are now more likely to insist that we make some commitment. On the other hand, no one

realistically expects a fisheries settlement until later in the year. The Commission has been slow in coming forward with revised proposals and the bilateral talks with the French (and the Danes) are still going on. Should we press for early Commission proposals and for a Fisheries Council before the end of May? Would it be possible to find an agreed set of guidelines for the future work which would not prejudice our position on access? To answer these procedural questions we really need a paper from Mr Walker on where he has got to in his own thinking, and in consultations with the industry and how the complex of quotas and access can best be handled. This is crucial. Questions like restructuring the fleet, third country agreements and enforcement, while important, are secondary.

9. On procedure, there is the question of a message to Signor Cossiga. Then, does the meeting agree to the series of bilateral meetings proposed in paragraphs 6-12? Paragraph 14, summarising the line to take in the Council meetings in the next few weeks, should pose no difficulty. The Finance Council on 12 May is likely to be cancelled.

10. In paragraph 15, the Foreign Secretary suggests a possible settlement at the 2/3 June Foreign Affairs Council. This may be too late in view of the 31 May deadline for agriculture prices. Mr Jenkins appears to have in mind an earlier date eg the informal meeting of Foreign Ministers scheduled for mid-May.

CONCLUSIONS

11. The Prime Minister may be able to conclude that the proposals in the Foreign and Commonwealth Secretary's minute of 1 May are agreed, subject to the discussion, and should form the basis for our negotiating posture in the weeks ahead. The Minister of Agriculture should circulate as soon as possible a paper on fisheries, suggesting how this issue should be handled, especially on quota and access, in the next few weeks.

ROBERT ARMSTRONG

(approved by Sir R Armstrong and signed on his behalf)

1 May 1980

SECRET

Methods - we must have a word about this early to-morrow. I am so horrified with the approach that I think it would be better if we didn't have the meeting. I feel as if the FCO going carried out all my own efforts with T.

PM/80/37

PRIME MINISTER

Community Budget: The Next Steps

1. We have only six weeks to go to the Venice meeting of the European Council. We need to decide quickly on the next steps, both on substance and procedure.

2. I believe that there is still a reasonable chance of getting the sort of settlement we want by, if not before, the June Council. Our leverage on agricultural prices gives us continuing bargaining strength, but may be a wasting asset: the longer the delay, the stronger the pressures on our partners to look for means of implementing the agricultural price settlement without us. I think therefore that we should not lose much time in pressing ahead, basing ourselves on the closeness we came to agreement in Luxembourg, in pursuit of a settlement, perhaps even in the Council of Ministers before the next meeting of the European Council.

3. The Council of Ministers is next due to meet on 5th and 6th May. Signor Ruggiero has been urging us to take advantage of that opportunity, but in my view that is too soon. In any case I cannot be at the meeting, because I shall be in Washington; and I gather Genscher cannot be there either.

4. If we are to succeed at a meeting of the Council of Ministers before 12th June, or at the European Council on that date, a further round of bilateral preparation will be needed. The object should be to arrive at a solution on all the outstanding questions that can be put to the Council as a proposal by the Presidency, with reasonable assurance that it will be acceptable to all the partners. We cannot leave all this preparation to the Presidency, and we must be active ourselves; but we must work in conjunction with Cossiga and retain his and Colombo's goodwill, which will be important to us.

/Substance

SECRET

Substance

5. For the purposes of the preparation we shall need to give our partners a pretty clear indication of the basis on which we should be prepared to settle the main issues under discussion. I suggest that this should be as follows:

I. The Budget

I think that we should be prepared to contemplate and discuss two outcomes: one based on your own proposal and the other on President Giscard's. Thus the first ought to be:

(i) a ceiling on the United Kingdom net contribution for 1980, 1981 and 1982; 538 meua in 1980, increasing by the same percentage as the increase in the Community budget for the two succeeding years (that would give us an incentive to press for economies in the Community budget); and a provision for a further review in 1982 in order to prevent the emergence of an unacceptable situation.

And the second might be:

(ii) our net contribution in 1980 to be 538 meua; an immediate review which will cover limits to the net benefits of the above-average GNP countries as well as the net contribution of the United Kingdom; a guarantee that, in the event of failure to agree by 31 December 1981, our net contribution in 1981 should not exceed a certain figure (which would have to be within the range of the 538 meua increased pro rata with the size of the budget and 800 meua which was on offer, and therefore somewhere between 675 and 775 meua); and an acceptable commitment to a further review if necessary to prevent the emergence of an unacceptable situation.

I think it follows from our position at Luxembourg that, provided the other elements are right, we could accept a solution on either of these lines.

II. CAP Prices

We shall have to accept the package agreed in Luxembourg on 28th April, if we get satisfactory outcomes on the other issues.

/III.

III. Sheepmeat

The other seven will accept anything we and the French agree. We shall have to discuss this bilaterally with the French. We should be ready to accept limited seasonal intervention, but without export rebates; and we should insist on premiums which give some benefit to British as well as French sheep farmers.

No

IV. Fisheries

We should try for a commitment in very general terms to conclude negotiations by the end of the year. We shall probably not be able to avoid some detail, on the lines of the document discussed in Luxembourg, but if we are to go along with that we must find a satisfactory form of words to protect our position on access which does not deny our treaty obligations.

Procedure

6. We shall need a first round of bilateral contacts at senior official level. That may need to be followed up by Ministerial bilaterals, at any rate in Rome, Paris and Bonn.

7. Our first contact should be with the Italians, as the Presidency, to explain both what we seek to achieve and how we propose, with their help, to carry matters forward. The Lord Privy Seal will see Colombo and Mr Franklin will see Ruggiero at the Council of Ministers on 5th and 6th May, but I think that there should also be a mission to Rome to see Berlinguer, Cossiga's Chief of Staff, and perhaps even Cossiga himself, if he is available.

8. The next contact should be in Paris. I think this should be Sir Robert Armstrong and Mr Franklin with Monsieur Wahl.

9. At more or less the same time there should be a contact in Bonn; I suggest by Lord Bridges and Mr Franklin.

10. Our Permanent Representative should be briefed to keep the Commission informed of our intentions and objectives during this phase, stressing that we are working towards a situation in which the Presidency can circulate a proposal to the Council of Ministers.

/11. We

11. We must not forget the smaller countries, particularly the Dutch; but we should decide about contacts with them in the light of the first contacts with the Italians, French and Germans.

12. We may well need a second round of Ministerial contacts, at least with the Italians, French and Germans. I should propose to conduct these myself, with my opposite numbers, though I should hope - at any rate in Paris and Bonn - to have a chance of a private discussion also with President Giscard and Chancellor Schmidt.

13. There is a meeting of the Agriculture Council on 5th and 6th May. It would be preferable that this should be postponed, but I see no possibility of the others being willing to postpone it. I suggest that the Minister of Agriculture should not seek to prevent further discussion and refinement of the package agreed at Luxembourg - he may even be able to improve it - but he will clearly not be able to agree to it on that occasion.

14. To sum up, I think we should play the four Council meetings during the next two weeks, during which we shall be engaged in bilateral discussions, as follows:

(i) Foreign Affairs (5th and 6th May). A fence-mending operation, designed to show that progress can and should be made in the period before the Venice European Council, and that we are ready to carry discussions forward in any forum the Presidency choose to name.

(ii) Finance (12th May). Possibly invite Commission to submit drafts of amended Financial Mechanism and Article 235 Regulation. Avoid any decisions on the 1980 budget other than stop gap measures necessary to protect our receipts.

(iii) Agriculture (5th and 6th May). As above: while maintaining our reservations on the documents on prices and sheepmeat agreed by other Member States on 27th April in Luxembourg, participate in detailed work on that basis to ensure that specific British interests are fully protected.

(iv) Energy (13th May). Concentrate work on preparing Community position for Venice Economic Summit, avoiding, so far as possible, contentious issues. Take positive but non-committal attitude towards Commission paper. No

15. I think that this programme gives us a chance of allowing the immediate frustrations of Luxembourg to begin to dissipate themselves; building on the near agreement there and keeping up a momentum which demonstrates our continuing readiness and will to reach satisfactory agreements on all the issues; and either concluding a settlement at the Council of Ministers at the beginning of June or, failing that, getting to a point where there are only a small number of specific points for the European Council to resolve at Venice.

16. I have considered whether you should send messages to Cossiga, Giscard and Schmidt, or to any of them, before we embark upon the process I have proposed. On the whole I think we should not send messages to Giscard or Schmidt while we are able to make progress at this stage without writing to them directly, and we should keep the possibility of messages from you in reserve in case we need them later on. But I think that it would be useful for you to send a message to Cossiga to thank him for all he did and tried to do at Luxembourg, to enlist his goodwill - which we know is available - for continuing to work as hard as we can for an early settlement, and to stress that we shall keep in closest touch with him and his officials on the handling of these matters in the coming weeks. I attach a draft accordingly.

17. I am sending copies of this minute to the Chancellor of the Exchequer and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office
1 May 1980

DSR 11 (Revised)

CONFIDENTIAL

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PRIME MINISTER

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO: SIGNOR COSSIGA

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

I am most grateful to you for all the effort you personally put into achieving an agreed solution to the Community budget problem in the run-up to and at the European Council meeting in Luxembourg. Without the Presidency we would not have even got as close to a solution as we did.

Like you, I am disappointed that success eluded us on this occasion. But I do think a substantial narrowing of the differences between us was achieved and that a solution could be in sight by the time we next meet in Venice on 12 June. I certainly shall be working to bring this about. ~~and I think it is in all our interests that these divisive matters should not drag on unresolved beyond that meeting. If they were to do so, that would be a very serious situation indeed.~~

Enclosures—flag(s).....

I continue to attach the greatest importance to the role of the Presidency and of you yourself. Ian Gilmour will no doubt be able to talk to your Foreign Minister in the margins of the Foreign Affairs Council in Brussels on 5-6 May, and our officials will also be in touch with yours to discuss the way ahead.

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Ref. A02060

PRIME MINISTER

Cabinet: Community Affairs

/Assuming that Iran and Afghanistan are dealt with under Foreign Affairs/. You will wish to report to the Cabinet on the outcome of the discussions on our budget problem at the 27th-28th April European Council, enlarging as appropriate on your statement in the House on 29th April. You could say that you will be considering with the Foreign and Commonwealth Secretary how best to carry matters forward, with the aim of ensuring that the negotiating momentum is kept up and that our present leverage on agricultural prices, sheepmeat and the 1980 budget is used to the best tactical effect (I understand that the Foreign and Commonwealth Secretary will be minuting you shortly on this). You might wish to make clear that, apart from blocking progress on the issues our partners themselves have linked to the budget problem, we shall in other fields for the time being continue to play a normal part in the ongoing business of the Community.

2. The Minister of Agriculture might be invited to report on the parallel meeting of the Agriculture Council, at which the other member states reached agreement on a 5 per cent increase in CAP prices and the main elements of a sheepmeat regime.

3. OD(E) will consider on 2nd May the line the Minister of Agriculture should take at the 5th-6th May Agriculture Council. There will also be a Foreign Affairs Council on the same days.

RTA

(Robert Armstrong)

30th April, 1980

CONFIDENTIAL

GRS 580 CONFIDENTIAL

Read in full.

CONFIDENTIAL
FM UKREP BRUSSELS 301906Z APR 80
TO IMMEDIATE FCO
TELEGRAM NUMBER 2216 OF 30 APRIL
INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG

MIPT : FOLLOW UP TO THE EUROPEAN COUNCIL

TUGENDHAT ASKED TO SEE ME THIS AFTERNOON. HE SAID THAT IN JENKINS' ABSENCE FOR THE NEXT TEN DAYS TO TWO WEEKS A STEERING GROUP OF COMMISSIONERS HAD BEEN CREATED TO CARRY MATTERS FORWARD CONSISTING OF NATALI (VICE-RESIDENT IN CHARGE), ORTOLI, GUNDELACH, DAVIGNON AND HIMSELF. THE NOEL GROUP HAD BEEN PUT TO WORK.

2. DAVIGNON, WHO WAS VERY ACTIVE, HAD BEEN TO SEE TUGENDHAT AND HAD EXPRESSED GREAT CONCERN AT THE PROSPECT OF A MAJOR CRISIS IF THE MATTER WAS NOT RESOLVED BEFORE THE END OF MAY. IF NOT, DAVIGNON BELIEVED THAT THE FRENCH WOULD FIND SOME WAY ROUND THE BRITISH VETO ON THE CAP PRICE PACKAGE. HE KNEW THAT THE FRENCH WERE WORKING ON THIS. THE COMMISSION WOULD COME UNDER GREAT PRESSURE FROM THE EIGHT TO FIND WAYS OF PUTTING THE PRICE PACKAGE INTO EFFECT WITHOUT BRITISH CONSENT. THE FRENCH MIGHT EVEN SUSPEND OR QUALIFY THE LUXEMBOURG COMPROMISE. ALTERNATIVELY THEY WOULD MOVE AWAY FROM THE CAP BY GIVING DIRECT INCOME AIDS TO FRENCH FARMERS. DAVIGNON DREW THE CONCLUSION THAT THE BRITISH WOULD BE BOUND TO REACT AND THE CRISIS WOULD BE UPON US. THEY HAD THEREFORE TO TRY TO SETTLE THE MATTER IN MAY.

3. I ARGUED THAT TUGENDHAT SHOULD POINT OUT TO DAVIGNON THE GREAT DISADVANTAGES FROM THE FRENCH POINT OF VIEW OF THE COURSES OF ACTION DAVIGNON WAS IMAGINING. I DOUBTED WHETHER THE FRENCH COULD AFFORD TO DITCH THE LUXEMBOURG COMPROMISE AND THEY WOULD CERTAINLY THINK TWICE BEFORE MOVING AWAY FROM COMMUNITY FINANCE OF THE CAP.

4. TUGENDHAT SAID THAT HE WAS CONSIDERING THE POSSIBILITY OF THE COMMISSION CONTRIBUTING IDEAS ON THE REVIEW CLAUSE AND WOULD BE GRATEFUL FOR ANY COMMENTS FROM US.

5. HE THOUGHT IT ESSENTIAL THAT BEFORE THE COUNCILS NEXT WEEK WE SHOULD SIGNAL CLEARLY AT A HIGH LEVEL TO THE OTHER GOVERNMENTS THAT WE WANTED TO SETTLE THE PROBLEMS IN MAY AND WE SHOULD COME TO THE COUNCILS IN THAT SPIRIT.

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/6.

6. DURING THE WHOLE DAY, NO-ONE HAS MENTIONED FISH OR LAMB TO ME.

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FITZHERBERT
CAB - FRANKLIN WALSH
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NO 10- ALEXANDER

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GPS 380
CONFIDENTIAL
FM UKREP BRUSSELS 301905Z APRIL 80
TO IMMEDIATE FCO
TELEGRAM NUMBER 2215 OF 30 APR
INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG.

MIPT: FOLLOW UP TO THE EUROPEAN COUNCIL.

AT COREPER LUNCH PLAJA SAID THAT ALTHOUGH HE HAD NOT YET RECEIVED FINAL INSTRUCTIONS HE BELIEVED THAT COLOMBO WOULD WANT TO GO INTO THE QUESTION FULLY AT THE FOREIGN AFFAIRS COUNCIL ON TUESDAY AND DECIDE ON WHAT SHOULD BE DONE NEXT AND BY WHOM. THE FOREIGN AFFAIRS COUNCIL SHOULD TAKE CHARGE OF THE HANDLING OF THE PROBLEM. THE PRESIDENCY HAD REGISTERED A GENERAL DESIRE FOR A SETTLEMENT BEFORE VENICE. IT WAS FORTUNATE THAT THE AGRICULTURE COUNCIL WAS MEETING ON THE SAME DAY.

2. HOMMEL (COUNCIL SECRETARIAT) SAID THAT THERE HAD BEEN DISCUSSION OF ACTION IN ECOFIN. PLAJA AND OTHERS SAID THAT THIS WAS A MATTER WHICH FOREIGN MINISTERS SHOULD TAKE CHARGE OF. NANTEUIL SAID THAT HE HAD BEEN LOOKING CAREFULLY AT GISCARD'S PRESS CONFERENCE: HE HAD FIRST SPOKEN OF FINANCE MINISTERS BUT HAD LATER CORRECTED HIMSELF AND SPOKEN OF FINANCE OR FOREIGN MINISTERS. NANTEUIL IMPLIED THAT FOREIGN MINISTERS WERE THE RIGHT PEOPLE.

3. I SAID THAT I HAD NO FORMAL INSTRUCTIONS. I WAS HOWEVER SURE THAT BRITISH MINISTERS WOULD BE VERY PLEASED IF PROGRESS TOWARDS A FINAL SETTLEMENT COULD BE ACHIEVED RAPIDLY. I WELCOMED THE PRESIDENCY'S INTENTION TO TAKE A GRIP AT THE FOREIGN AFFAIRS COUNCIL. IN ANSWER TO QUESTIONS I SAID THAT YOU WOULD NOT BE ABLE TO BE PRESENT SINCE IT WAS CLEARLY IMPORTANT IN PRESENT CIRCUMSTANCES TO MAINTAIN YOUR VISIT TO THE U.S. THIS WAS GREETED WITH SOME CONCERN. I ASSURED THEM THAT THE LORD PRIVY SEAL WAS YOUR ALTER EGO. IT LATER EMERGED THAT GENSCHER WOULD PROBABLY NOT BE PRESENT. FRANCOIS-PONCET WILL BE THERE IN THE MORNING.

4. AT THE END OF COREPER PLAJA ANNOUNCED THAT THE MATTER WOULD BE DISCUSSED FIRST ON TUESDAY, THOUGH COLOMBO DID NOT WANT IT ON THE FORMAL AGENDA.

/5.

5. SEE MIFT.

FCO PASS ADVANCE COPIES TO:-

FCO	PS/SOFS, PS/LPS, PS/PUS, LORD BRIDGES, HANNAY, SPRECKELY FITZHERBERT
CAB	FRANKLIN, WALSH
MAFF	SIR B HAYES
TSY	SIR K COUZENS, HANCOCK, MICHELL
NO.10.	ALEXANDER

BUTLER.

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GRS 700
CONFIDENTIAL
FM UKREP BRUSSELS 301904Z APR 80
TO IMMEDIATE FCO
TELEGRAM NUMBER 2214 OF 30 APRIL
INFO PRIORITY ALL EC POSTS.

FOLLOW UP TO THE EUROPEAN COUNCIL

1. THE ATMOSPHERE BEFORE AND AT COREPER LUNCH WAS FRIENDLY AND BUSINESSLIKE.

2. PLAJA TOLD ME BEFORE THE MEETING THAT COLOMBO WAS DETERMINED TO TRY TO GET THE UK BUDGET PROBLEM SOLVED BEFORE THE END OF MAY SO THAT THE AGRICULTURAL PRICES PACKAGE COULD ALSO BE APPROVED. THERE SEEMS TO BE A GENERAL FEELING AMONG PERMANENT REPRESENTATIVES AND IN THE COMMISSION THAT IT IS IMPORTANT TO MEET THIS DEADLINE IF AGRICULTURAL PRESSURES ARE TO BE CONTAINED.

3. IT WAS CLEAR FROM EARLIER CONVERSATIONS WITH POENSGEN (GERMANY) AND RIBERHOLDT (DENMARK) THAT SOME HEADS OF GOVERNMENT HAD DEPARTED FROM LUXEMBOURG WITH DIFFERENT PERCEPTIONS OF WHERE THE DISCUSSIONS ON THE BUDGET HAD GOT TO WHEN THEY WERE BROKEN OFF. ACCORDING TO POENSGEN, SCHMIDT SEEMED TO HAVE GOT THE IMPRESSION THAT THE PRIME MINISTER HAD IN THE END RETREATED FROM HER ACCEPTANCE OF THE FIGURE OF 538 MUA FOR 1980 (EVEN AS AN ELEMENT IN A THREE YEAR DEAL).

4. POENSGEN WAS KEEN TO AVOID DISCUSSION OF SUBSTANCE AT LUNCH FOR FEAR THAT NANTEUIL WOULD COMPLICATE THE ISSUE AND FIXED THIS WITH PLAJA. BUT IN THE EVENT A GENERAL DISCUSSION TOOK PLACE OVER DRINKS WITH NANTEUIL CONTRIBUTING CALMLY. WITH THE ASSISTANCE OF HOMMEL (COUNCIL SECRETARIAT), WHO ATTENDED MOST OF THE EUROPEAN COUNCIL, THE FOLLOWING PICTURE EMERGED.

5. THE LAST PROPOSAL MADE HAD BEEN A DUTCH ONE SUPPORTED BY NO-ONE ELSE. BUT, AT THE MOMENT WHEN AGREEMENT HAD SEEMED NEAR, DISCUSSION HAD CENTRED ON A GERMAN/FRENCH PROPOSAL FOR A TWO-YEAR ARRANGEMENT UNDER WHICH:-

A. THE UK NET CONTRIBUTION IN 1980 WOULD BE LIMITED TO 538 MUA:

B. THE FIGURE FOR THE RETURN TO THE UK IN 1980 THUS ARRIVED AT WOULD BE MAINTAINED IN 1981 (GISCARD ESTIMATED THAT THIS MIGHT PRODUCE A UK NET CONTRIBUTION IN 1981 OF 800):

/c.

C. THERE WOULD BE A REVIEW OF ALL THE BUDGETARY ARRANGEMENTS BEFORE THE END OF 1981. WE HAVE RECEIVED PRIVATELY THE COUNCIL SECRETARIAT'S VERSION OF WHAT GISCARD SAID: -

''THE EUROPEAN COUNCIL INVITES THE COMMISSION AND THE COUNCIL (MINISTERS OF ECONOMIC AFFAIRS AND FINANCE), DURING THE COURSE OF THE CURRENT YEAR, TO EXAMINE THE MANNER IN WHICH THE COMMUNITY BUDGET COULD APPROPRIATELY BE FINANCED AND ALSO TO CONSIDER FINAL AND DURABLE MECHANISMS TO DEAL WITH THE PROBLEM OF UNACCEPTABLE SITUATIONS, AND TO SUBMIT THEIR CONCLUSIONS TO THE EUROPEAN COUNCIL FOR ITS LAST SESSION IN 1980.''

(GISCARD'S PRESS CONFERENCE ''TO SEE HOW THE FINANCIAL RULES OF THE COMMUNITY COULD BE ADJUSTED TO TAKE ACCOUNT 'DANS LA DUREE' OF BRITISH PREOCCUPATIONS'')

THE PRIME MINISTER HAD REGARDED THE 1981 FIGURE AS UNACCEPTABLY HIGH, BUT HAD BEEN PREPARED TO AGREE THAT IT SHOULD BE INCREASED FROM 538 IN PROPORTION TO THE BUDGET AS A WHOLE (I.E. PERHAPS TO AS MUCH AS 650).

6. I SAID THAT I BELIEVED THAT THE PRIME MINISTER HAD STILL ALSO BEEN SAYING THAT SHE WAS CONCERNED WITH WHAT WOULD HAPPEN IN THE THIRD YEAR (I.E. THE LAST YEAR OF THE EXISTING FINANCIAL MECHANISM) AND WITH THE TERMS OF REFERENCE OF THE REVIEW.

7. FOR DISCUSSION AT LUNCH PLEASE SEE M I F T.

FCO ADVANCE TO:-

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TSY - SIR K. COUZENS, HANCOCK, MICHELL
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UNIVERSITY COLLEGE LONDON
GOWER STREET LONDON WC1E 6BT
DEPARTMENT OF HISTORY

Professor Douglas Johnson

Telephone 01-387 7050

R1/5
TO P.M.

with compliments.

Douglas Johnson.

29 April 1980.

F.M. Stenton

"OUEST-FRANCE"
du vendredi 28 mars 1980

POINT DE VUE

par Douglas Johnson

La Grande-Bretagne est en Europe

Je viens de voir, sur le quai du débarquement des Brittany-Ferries à Saint-Malo, un camion britannique sur lequel était écrit en gros caractères, un seul mot : « B.U.T. ».

Ça y est, me suis-je dit. C'est le début de la campagne de Mme Thatcher contre les règlements injustes et désuets du Marché commun à cause desquels la Grande-Bretagne est obligée de contribuer plus que n'importe quel autre pays de la Communauté. Avec beaucoup d'habileté, Mme Thatcher doit se rappeler qu'il y avait dans le temps un certain homme politique français, nommé Valéry Giscard d'Estaing, qui a eu le courage de répondre au général de Gaulle, au cours d'un certain référendum : **« Oui... mais... ».**

Ainsi, j'imaginais que les routes de France allaient être sillonnées par les camions anglais disant « B.U.T. » : **« Oui, on va rester dans votre Marché commun, oui on est très européen, mais... »**

Un moyen de convaincre les Français, nos adversaires inévitables, quand il s'agit de reviser la constitution de l'Europe.

Évidemment, sur le détail, je m'étais trompé. Le camion en question faisait partie d'une société d'élevage de dindes en Angleterre, « The British United Turkey Growers », d'où le sigle « B.U.T. ». J'étais déçu. Mais, dans le fond, n'y a-t-il pas un rôle de propagande que les Anglais peuvent jouer et peuvent gagner ?

Depuis que je suis en France, au début de 1980, je suis frappé par la réputation qu'y a gagnée Mme Thatcher. Tout le monde me parle d'elle avec enthousiasme. C'est sans trace de chauvinisme masculin que les gens vantent l'énergie et le dynamisme de la « Dame de Fer ». Mais il y a autre chose que tout le monde m'explique. Mme Thatcher ne gagnera pas. Il n'y a rien à faire, dit-on, car si les Anglais paient moins, les autres, dont les Français, vont payer davantage et voilà qui est inacceptable.

L'Histoire se répète, mais à l'envers. **« Rien n'est ennuyeux,** disait un personnage de Stendhal, **comme l'Anglais qui se prend de colère parce que toute l'Europe n'est pas une servile copie de son Angleterre. »** Et maintenant, on dirait que c'est le Français qui se fâche.

Dans les années 1920, quand Poincaré insistait sur la faiblesse économique de la France, les hommes politiques britanniques répondaient que la France n'avait qu'à s'arranger pour avoir un système fiscal qui fût efficace. De nos jours, tous les Français, et non pas seulement les hommes politiques, s'étonnent que la Grand-Bretagne, avec ses ressources pétrolières, prétende être économiquement faible.

Mais l'Histoire ne se répète pas exactement. Dans les années 1960, le général de Gaulle se moquait de l'idéalisme européen et insistait sur les priorités nationales. On disait qu'il était un homme du passé. Maintenant, Mme Thatcher utilise le même langage. Mais personne ne dirait à présent que cet égocentrisme national soit une attitude du passé. Au contraire, c'est le reflet assez exact de l'état de l'Europe d'aujourd'hui. Tout le monde est thatchériste. Il est donc impossible qu'une Mme Thatcher l'emporte sur tous les Messieurs Thatcher qui l'entourent. **« Le patriotisme,** disait Montherlant, **est une passion triste qui ne se connaît que dans la douleur. »** Et actuellement, tous les pays de l'Europe connaissent et appréhendent une certaine douleur.

Par contre, le président de la République prévoit la possibilité d'une guerre dans l'avenir. Alors, il faudrait avoir absolument une autre idée de l'Europe. Les pays européens ne se feront pas la guerre les uns aux autres, mais si autour d'eux la guerre éclate parmi les grands, l'Europe peut être détruite. Il faudrait donc que l'Europe parle et agisse à l'unanimité. L'Europe ne peut se sauver que si elle est unie.

Alors il faudrait que la Grande-Bretagne reste en Europe (avec son pétrole). Il faudrait donc ménager Mme Thatcher. Peut-être que le président de la République va envoyer des camions en Angleterre, des camions portant en gros caractères le mot « RÉFLÉCHISSONS ». Rien d'anormal à ce que les véhicules français soient plus longs que les camions britanniques.

(*) **Douglas JHONSON**
Professeur à l'université
de Londres

SECRET

FM UKREP BRUSSELS 290850Z APR 80

TO F L A S H FCO

TELNO 2144 OF 29 APRIL

INFO IMMEDIATE ROME PARIS BONN.

2.

M I P T: UK BUDGET PROBLEM

1. MY GUESS IS THAT THE OFFICIALS IN PARIS AND BONN WOULD WANT TO SABOTAGE A ONE YEAR AGREEMENT OF THE KIND PROPOSED. IF YOU AND THE PRIME MINISTER DECIDE TO GO FOR IT, I BELIEVE THAT IT WOULD BE IMPORTANT TO STRIKE WHILE THE IRON IS HOT, GETTING HM AMBASSADORS IN PARIS AND BONN TO TALK TO THE ELYSEE AND THE CHANCELREY VERY QUICKLY, KEEPING THE ITALIANS IN THE PICTURE.

2. I HAVE NOT HAD TIME TO THINK THE TIMING THROUGH. BUT WE WOULD CLEARLY NEED TO GET OUR SIDE OF THE DEAL SEWN UP BEFORE WE CONCEDED THE CAP PRICES PACKAGE. I BELIEVE THEREFORE THAT WE OUGHT TO TRY FOR A POSTPONEMENT OF THE AGRICULTURE COUNCIL NEXT WEEK. BUT THE OTHERS WILL NOT WANT TO CONCEDE THAT, HOPING TO USE IT TO PUT PRESSURE ON US, UNLESS THEY CAN SEE THAT THERE IS A MOVE TO SETTLE THE BUDGET PROBLEM AT THE LEVEL OF THE ORDINARY COUNCIL. THIS TOO IS A REASON FOR SPEED, IF WE DECIDE TO GO THIS ROUTE. WE WOULD WANT THE PRESIDENCY TO BE ABLE TO INDICATE TO THE OTHERS THAT THE FOREIGN MINISTERS MEETING ON 5/6 MAY WOULD BE DISCUSSING THE POSSIBILITY OF A ONE YEAR INTERIM SOLUTION AS A REASON FOR POSTPONING THE AGRICULTURE COUNCIL. WE WOULD THEN AIM TO GET THE FOREIGN MINISTERS COUNCIL TO AGREE THE MAIN LINES OF THE SETTLEMENT WHICH ARE ALREADY CLEAR AND TO INVITE THE COMMISSION TO MAKE URGENT FORMAL PROPOSALS TO GIVE EFFECT TO IT.

3. I AM SENDING THIS TELEGRAM FLASH IN CASE YOU WISH TO SUBMIT THE IDEA TO THE PRIME MINISTER FOR CONSIDERATION BEFORE SHE MAKES HER STATEMENT. IF SHE WISHED TO CONSIDER THIS OPTION, SHE WOULD OBVIOUSLY WISH TO AVOID SAYING THINGS WHICH WERE INCONSISTENT WITH IT IN THE HOUSE TODAY.=

FCO ADVANCE TO:

FCO - PS/SOFS, PS/LPS, PS/PUS, BRIDGES, HANNAY

CAB - SIR R ARMSTRONG, FRANKLIN

MAFF - SIR B HAYES

TSY - SIR K COUZENS

NO 10 - ALEXANDER

BUTLER

1.

ECFO 3/29

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OO BONN

GPS 500

SECRET
FM UKREP BRUSSELS 290849Z APR
TO FLASH FCO
TELNO 2143 OF 29 APRIL
INFO IMMEDIATE ROME PARIS BONN.

UK BUDGET PROBLEM

THERE IS ONE OPTION WHICH WE DID NOT CONSIDER AT LUXEMBOURG YESTERDAY AND WHICH IN MY VIEW IS WORTH THINKING ABOUT NOW. IT IS TO MAKE A ONE YEAR DEAL SEPARATING FISH, LAMB AND ENERGY OUT FROM THE PACKAGE. THE ELEMENTS WOULD BE:-

A. A NET CONTRIBUTION FOR THE UK IN 1980 OF 538 MUA, THIS RESULT TO BE ACHIEVED BY AMENDING THE FINANCIAL MECHANISM AND CALCULATING ARTICLE 235 EXPENDITURE TO PRODUCE THE AGREED RESULT:

B. ACCEPTING THE AGRICULTURAL PRICES PACKAGE FAVOURED BY THE EIGHT:

C. INSTRUCTING THE ORDINARY COUNCIL TO PROCEED WITH THE WORK ON LAMB AND FISHERIES: AND,

D. ASKING THE COMMISSION TO PUT FORWARD TO THE COUNCIL URGENTLY IDEAS AS TO HOW THE WHOLE COMPLEX OF BUDGET ISSUES SHOULD BE DEALTH WITH IN 1981 AND AFTER.

2. ALTHOUGH I CONTINUE TO THINK THAT OUR NEGOTIATING POSITION IS STRONG AND THAT A MARGINALLY BETTER THREE YEAR BUDGET SOLUTION OUGHT TO BE ATTAINABLE AT VENICE, DESPITE SCHMIDT AND GISCARD'S RELUCTANCE TO DISCUSS THE MATTER THERE, I DO NOT SEE HOW THEY COULD NOW PRESENT SUCH A AGREEMENT AT HOME AS ACCEPTABLE UNLESS THEY COULD EXTRACT THINGS FROM US ON FISH, LAMB AND ENERGY. THE ADVANTAGE OF THE ONE-YEAR SETTLEMENT WOULD BE THAT WE COULD TAKE THEM AT THEIR WORD AND SETTLE THE BUDGET IN THE ORDINARY COUNCIL. (INCIDENTALLY SUCH MATTERS HAVE NORMALLY BEEN DEALT WITHIN THE FOREIGN AFFAIRS COUNCIL WHICH WOULD BE A BETTER FORUM FOR OUR PURPOSE THAN THE FINANCE COUNCIL). NO NEW MAJOR DECISIONS OF SUBSTANCE WOULD BE NEEDED, THOUGH THE TEXT OF THE ARTICLE 235 REGULATION MIGHT GIVE RISE TO DIFFICULTIES AND WE SHOULD HAVE TO CONSIDER CAREFULLY THE TIMING IN RELATION TO THE CAP PRICES SETTLEMENT.

3. THE RISK OF FIGHTING THE MATTER ON TO THE VENICE SUMMIT IS THAT SIX WEEKS OF VETO ON CAP PRICES, WITH THE PRESS AND OTHER WARFARE LIKELY TO BE INVOLVED, MIGHT MAKE IT POLITICALLY VERY DIFFICULT FOR THE OTHERS TO MAKE CONCESSIONS TO US ON THE BUDGET AND EVEN MORE DIFFICULT FOR US TO MAKE CONCESSIONS TO THEM ON THE LINKAGE ISSUES. THE FRENCH MIGHT START TO HELP THEIR FARMERS NATIONALLY AND THUS BE CONTENT TO SIT THE WHOLE THING OUT TILL THE AUTUMN, THUS JEOPARDIZING 1980 SOLUTION.

4. AT THE SAME THERE MIGHT BE PSYCHOLOGICAL ADVANTAGE IN GIVING SCHMIDT AND GISCARD A REST FROM HAVING TO BATTER WITH THE PROBLEM PERSONALLY. IN MY VIEW THE FUTURE BARGAINING POSITION WOULD BE REASONABLY SATISFACTORY. WE SHOULD HAVE AMENDED THE FINANCIAL MECHANISM AND ESTABLISHED THE ARTICLE 235 REGULATION. IT WOULD BE DIFFICULT FOR THE OTHERS, HAVING CONCEDED THE PRINCIPLE OF LIMITING OUR NET CONTRIBUTION TO GO BACK TO WHERE THEY WERE BEFORE. WE SHOULD HAVE NEXT YEAR'S CAP PRICES AND BUDGET AS LEVERS AND THE 1 PERCENT VAT CEILING MIGHT PROVE USABLE AS WELL.

5. FINANCIALLY WE SHOULD BE ABLE TO POCKET THE LARGE SUM ON OFFER FOR 1980.

6. OUR STRONGEST ARGUMENT WITH THE FRENCH AND GERMANS FOR THIS COURSE OF ACTION WOULD BE THAT IT RESPONDED TO WHAT SCHMIDT AND GISCARD WERE SAYING IN THE EUROPEAN COUNCIL AND WOULD GIVE TIME FOR THE COMMUNITY TO WORK OUT A MORE DESIRABLE SOLUTION. IF THEY ARE TO TURN IT DOWN OUR MORAL POSITION FOR INSISTING ON A SETTLEMENT AT VENICE WOULD BE IMPROVED.

7. BUT YOU MAY THINK THAT THIS OPTION IS POLITICALLY UNATTRACTIVE. IF SO, I THINK WE SHALL DO ALL RIGHT IN THE END BY SLOGGING IT OUT.

FCO ADVANCE TO:
FCO - PS/SOFS, PS/LPS, PS/PUS, BRIDGES, HANNAY
CAB - SIR R ARMSTRONG, ~~FRANKLIN~~
MAFF - SIR B HAYES
~~TSY - SIR K COUZENS~~
NO 10 - ALEXANDER

BUTLER

NNNN

SENT AT 29/0925Z JAL

PART 7 ends:-

28 April 1980.

PART 8 begins:-

29 April 1980.