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Calls on The PM by the President of the European Commission, Mr Roy Jenkins

EUROPEAN POLICY

May 1979

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PREM 19/228



10 DOWNING STREET

From the Private Secretary

4 November 1980

Dear Julian,

Call by Mr. Jenkins

I enclose an extract from the record of yesterday's conversation between the Prime Minister and the President of the European Commission about British appointments in the Commission.

I am sending copies of this letter and its enclosure to Anthony Meyer (Department of Transport), George Walden (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

Yours sincerely

Michael Alexander

Julian West, Esq.,
Department of Energy.

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10 DOWNING STREET

From the Private Secretary

4 November, 1980

Dear Paul,

Call by Mr Jenkins

As you know the President of the European Commission, Mr Roy Jenkins, called on the Prime Minister yesterday afternoon. He was accompanied by Mr Tickell. I enclose a record of the conversation.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food), Stuart Hampson (Department of Trade), Julian West (Department of Energy), Ian Ellison (Department of Industry), David Wright (Cabinet Office) and Jim Buckley (Lord President's Office).

Yours ever

Richard Alexander

Paul Lever, Esq
Foreign and Commonwealth Office

CONFIDENTIAL

9

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Copied to Master set
and Euro Pol: Commissioners.

RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRESIDENT OF THE EUROPEAN COMMISSION, MR ROY JENKINS, AT
10 DOWNING STREET ON MONDAY 3 NOVEMBER AT 1500 HOURS

Present:

Prime Minister	Mr Roy Jenkins
Mr M O'D B Alexander	Mr Tickell

European Council

The Prime Minister said that she hoped Mr. Jenkins would make a full report to the European Council meeting in Luxembourg. She hoped that this would, inter alia, serve as a springboard for discussion about the future. Mr. Jenkins said that he was grateful for the Prime Minister's suggestion.

The Prime Minister asked whether, given that Mr. Rallis was going to be present as an observer, there was any reason why M. Thorn could not be present at the European Council. Mr. Jenkins said that so far as he was aware there was no objection in principle. However he wondered whether Mr. Rallis would be entitled to say anything. The Prime Minister said that regardless of whether or not either man would be entitled to say anything it would make sense for them to be present. However she realised that M. Thorn's presence depended on the view that President Giscard and Chancellor Schmidt would take.

As regards the agenda for the European Council, the Prime Minister did not think that it could be limited to

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CONFIDENTIAL

- 2-

political affairs, although these must of course be discussed. She thought that there should also be a discussion of the CAP, of budget restructuring and of the problems of international trade. These problems were acute just now and although President Giscard might be reluctant to see them discussed, they could not be ignored.

CAP

The Prime Minister said that President Giscard seemed likely to seek price increases that would be regarded in the United Kingdom as prohibitively high. Indeed, it was difficult to justify any price rises for products that were still in surplus. Mr. Jenkins said that the weakness of the UK negotiating position lay in the fact that we had positive MCAs. These meant that we had the highest agricultural prices in Europe and made it more difficult for us to argue that others should adopt a restrictive price policy. The Commission had not yet discussed the price rises it would be proposing in percentage terms. However he expected that they would propose moderate price rises, just in double figures, accompanied by co-responsibility levies. These would not be straight linear levies. They would be super levies which would apply only on production over a certain norm. They would be intended to penalise those who increased production and not necessarily the biggest producers. The Commission would of course also be looking for savings (the Prime Minister interjected that she hoped they would not touch the butter subsidy. Mr. Jenkins said that he thought it should be possible to save this). The aim would be to keep the increase in the ~~TEOCA~~ element in the overall budget to about 12 per cent.

The Prime Minister asked whether this would mean that the CAP would take up a larger share of the budget. Mr. Jenkins said that this would depend on what happened in the rest of the budget. He commented on the need to take account of the views of the European Parliament. Unless they were given something to

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CONFIDENTIAL

CONFIDENTIAL

- 3 -

their amour propre, they might be tempted to reject the budget again as they did last year. This would, inter alia, have the effect of delaying payments to the UK under the May agreement. It was arguable that the UK, having dealt effectively with France's rearguard action on the implementation of the May agreement, should now lean in the direction of the European Parliament. We should try to get the budget issue out of the way in December before returning to deal with the agricultural price increases which need not be agreed until March or a little later.

The Prime Minister took note but said that she could not understand why French housewives did not revolt against the rises in farm prices. Last year's price rises had been heavily criticised in this country. The shock waves could still be felt. Despite the difficulties which some farmers were, she understood, encountering, there was a widespread feeling that food prices in this country were too high. To put a further price rise on top of them would be unacceptable. One consequence of all this might have to be that the Green Pound would have to be revalued.

Community Budget

Mr. Jenkins said that a solution to the medium term problems of the Community budget required:-

- a) Adherence to a rigid ceiling on agricultural expenditure. Beyond a defined point national aids should come into play; and
- b) Once agreement had been reached on restructuring, a willingness on the part of Member States to go through the 1 per cent VAT ceiling.

Without a willingness to go through the 1 per cent ceiling the budget could not be balanced. Mere agreement to cut off the

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CONFIDENTIAL

CONFIDENTIAL

-4-

increase in agricultural prices would not permit a solution to the budget problem unless it was accompanied by a willingness to increase expenditure in other sections of the budget. The Prime Minister said that she was not prepared to envisage going through the 1 per cent VAT ceiling at any stage. If the CAP could be put on a rational basis, the budget would balance itself once economic expansion got underway again. Mr Jenkins said that Community revenues were relatively inelastic. The reduction of agricultural expenditure would not on its own suffice. HMG's present position implied a permanently unbalanced budget and further extensions of the May agreement. In his view a better posture would be to remain firm on the CAP and the ceiling until restructuring had been agreed and then to go through the ceiling. He thought that this would turn out to be Chancellor Schmidt's position. There was a strong British interest in developing the regional fund. There seemed little point in having expensively administered programmes which merely served to direct money back into the national budgets. The Prime Minister said that she was not prepared to envisage a situation in which the UK was invited to make bigger contributions to the Community budget on the eve of a General Election in which the Opposition would be campaigning on an anti-Europe platform. Nor did she believe that it would be popular in this country to give over more money to other people to determine how it should be spent. She preferred to concentrate on getting the costs of the CAP down and on eliminating surpluses.

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CONFIDENTIAL

Sugar

Mr. Jenkins gave it as his personal opinion that European farmers should be discouraged from producing beet sugar. It was against the international division of labour since it diminished the market for cane sugar; it was bad for the soil; it was in any case produced by rich farmers on good land; and it was, finally, an ugly crop (!). However, he acknowledged his views on this point were Utopian.

Fisheries

The Prime Minister asked whether Mr. Jenkins thought that a fisheries agreement could be achieved by the end of the year. Mr. Jenkins said that he thought that it should be possible. Everyone would, however, have to reduce their present demands. The Prime Minister said that we were at present not being offered enough on either access or quotas. The UK was for instance being offered less on quotas than we had been offered two years ago in Berlin. What particularly interested HMG were the figures on fish for human consumption.

Trade

The Prime Minister said that she hoped that there could be a discussion at the European Council meeting of current international trade problems. She had in mind particularly the problems of steel, cars and petrochemicals. The petrochemical industry in this country thought that they had been sacrificed by Viscount Davignon in order to get a better deal on steel and cars. The policy of the United States government in holding down oil and gas prices was extremely unfair. Mr. Jenkins said that the Community had had a very difficult time with the United States on steel. The US Administration had behaved very well since the Community were, in fact, dumping steel. This was an immensely more important issue than the problems of the textile industry. The annual value of the Community's trade in steel with the United States was some \$2 billion while that in synthetic textiles was no more than \$80 or \$90 million. And the action taken on synthetic textiles had dissatisfied many in e.g. the carpet trade. The problem with protective measures was always the repercussion in other fields. The UK's difficulty with Indonesia was a notable current example. The Prime Minister /said that she

CONFIDENTIAL

- 6 -

said that she would prefer free trade but free trade at present was severely circumscribed. In certain areas we were suffering more than our European partners and were unable to take action. Mr. Jenkins wondered whether if we had freedom of action we would make use of it. The Prime Minister said that she would. She hoped that in any case the European Council could consider what the Community should do about Japanese imports and about the underpricing of American oil and gas. Mr. Jenkins agreed that discussion of both subjects could be useful. (The Prime Minister accepted that it would not be appropriate for Viscount Davignon to be present in Luxembourg.)

Energy

Mr. Jenkins asked for the Prime Minister's views on the harmonisation of energy prices within the Community. The Prime Minister said that she was extremely sceptical. She did not see how it would be possible to harmonise energy costs when the Community had been unable to harmonise wage and interest rates. Mr. Jenkins said that he had been toying with the related idea of an oil import tax. The Prime Minister said that she thought this would be very tough on industry and unwelcome to public opinion in this country. Mr. Jenkins said that while he was in any case inclined to favour making energy expensive, he was not convinced that an oil import tax would in the long run result in an increase in the price of oil. He thought that the price would after a period balance at a level reflecting supply and demand. Whether or not there was a levy, the oil producers would charge the price they could get consistent with the depletion rate they desired. The effect of an oil price levy would be to counteract the present trend towards an excessive redistribution of income internationally. It would mean that some of the benefit of increased oil prices would be retained by those who could spend it effectively (which the oil producers could not).

EMS

Mr. Jenkins asked whether there was any chance of the UK joining the EMS. The Prime Minister said that she did not think this was yet possible. Mr. Jenkins said that he regarded this as a great mistake. Britain's absence from the EMS increased the dangers that a two-speed Europe would develop. The French would

CONFIDENTIAL

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CONFIDENTIAL

- 7 -

love this but it would be quite contrary to British interests. The Prime Minister asked Mr. Jenkins how he would play the hand. Mr. Jenkins said that he would not try to join the EMS immediately. He would first try to bring down the rate of sterling somewhat and would then join at the 6 per cent margin. The Prime Minister said that she was indeed anxious to bring down the sterling exchange rate and asked Mr. Jenkins how he would effect this. Mr. Jenkins said that he would try to talk the rate down; to reduce interest rates; and to discourage capital inflows e.g. by the introduction of differential interest rates. The Prime Minister said that the reduction of the MLR from 17 per cent to 16 per cent had pushed sterling up and that the introduction of differential interest rates would mean renegotiating double taxation agreements all over the world. Mr. Jenkins agreed about the difficulty of achieving a controlled reduction in exchange rates but repeated that if the Government succeeded in achieving it they should join the EMS within the wider margin. The EMS was a small scale Bretton Woods and the Prime Minister would recall how much post-War prosperity had owed to Bretton Woods.

The European Commission

The Prime Minister said that she understood that it was now the intention of Messrs Ortoli and Cheysson to remain in the Commission and to try to retain their present portfolios. She thought this would be a pity. Mr. Richard was ideally qualified for the development portfolio. Mr. Jenkins said that there was no reason in principle why Commissioners who stayed on should retain their portfolios. But M. Cheysson would certainly wish to keep the development portfolio and it would be difficult to shift him. He had run his "empire" extremely effectively and the French Government would certainly wish him to continue. It would be up to the new President whether he tried to shift the present incumbents or limited himself to allocating the vacant portfolios. M. Thorn would not of course be able to ignore the wishes of Member Governments entirely. The Prime Minister took note and commented that she would wish Mr. Tugendhat to retain responsibility for the budget.

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/The discussion

CONFIDENTIAL

- 8 -

The discussion ended at 1630 hours.

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4 November 1980

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The Prime Minister asked whether the UK could be sure of getting the succession to Mr. Leonard Williams as Director General of DG XVII. Mr. Jenkins said that we should have no difficulty in doing this provided we did not also want the Energy Commissioner post. He had asked Mr. Williams to stay on in order to keep open this possibility. He did not think it would be possible to settle the succession to Mr. Williams before he himself ceased to be President. Mr. Jenkins said that a good British candidate was also required to succeed Mr. le Goy in DG VII. Mr. le Goy had not been a great success. It would be well worthwhile ensuring that his successor was really effective. Finally, Mr. Jenkins commented that Sir Roy Denman had been an outstanding success.

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Foreign and Commonwealth Office

London SW1A 2AH

31 October 1980

J. P. [Signature]

Dear Michael,

Call on the Prime Minister by the President of the
European Commission: Monday 3 November

As requested in your letter of 9 October
I enclose a brief for Mr Jenkins' call on Monday
3 November.

*yours ever
Rodric Lyne*

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
No 10 Downing Street
LONDON SW1

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CALL ON PRIME MINISTER BY PRESIDENT OF THE EUROPEAN COMMUNITY:
MONDAY 3 NOVEMBER, 3.00 pm

POINTS TO MAKE

FISHERIES

1. Committed to 1 January 1981 target for agreement of revised CFP.
2. Settlement must cover all elements identified in 30 May Council declaration. Useful progress at 28 October Council. Conservation and control effectively settled. Now have to tackle quotas and access in parallel, starting at high-level official meetings in early November.
3. Glad to learn of agreement to discuss quotas in detail at 17/18 November Council; though we remain far from happy with Commission methodology. UK approach to negotiations constructive and flexible, but settlement must be seen to be fair by UK industry, which is still coming to terms with enormous losses of fishing in third country waters. Figures of 32% for latest Commission offer and 45% for UK industry's demand widely publicised. Such 'overall' figures can be misleading but you can appreciate HMG's difficulties with current figures which on stocks of major UK interest are lower than those proposed (and publicised) in 1978. Recognise cake has shrunk but even more important for Commission to be even-handed. Must give priority to human consumption fishing; countries such as Denmark must accept an equitable share of burden which UK and others are being asked to carry.
4. Access a fundamental element of CFP settlement: 12 mile zone reserved exclusively or almost exclusively for national fishermen will be essential if package to be sold in Britain. Some form of demonstrable preference beyond 12 miles perhaps related to areas specially dependent on fishing also essential.

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EUROPEAN COUNCIL, 1 - 2 DECEMBER

5. (a) Agenda should include a general discussion on economic issues, including CAP and the problems of industry and trade, (vehicles, steel, petrochemicals, textiles etc).

(b) Restructuring may well need to be discussed in general terms.

(c) Would Mr Jenkins give a wide ranging report including the achievements of his Commission?

RESTRUCTURING OF COMMUNITY BUDGET

6. Commitment to review major turning point in Community development. Valuable opportunity to set house in order. Make full use.

7. Cannot be shirked. Triple challenge of:

— (a) 1% VAT ceiling;

— (b) enlargement;

— (c) commitment to avoid "unacceptable situations".

8. UK preliminary thought. Approach open minded. Exploratory stage.

9. Must keep to timetable i.e. Commission paper by June; aim at solution by end 1981. Otherwise likely dislocation of Community business. Thorough preparation by present Commission essential if new Commission to maintain momentum.

10. UK committed to finding Community solutions to Community problem.

11. Fundamental problem: rapid growth/dominance of CAP; stunted growth of other policies. Former must be controlled to make room for latter.

12. Must find solution within 1% ceiling. Raising unacceptable to number of Member States but would also make problem worse. If breached no effective constraint on CAP spending; cost of enlargement; UK net contribution larger.

13. Important that decisions affecting 1981 budget (especially price-fixing) should not prejudice finding of long-term solution.

Agriculture

14. Commission proposals on Agriculture will set tone and scope. Important they are widely framed and presented only after full consultation with Member States .

15. Must cut cost of CAP and reduce surpluses. They undermine Community finances and political support for Community.

16. Do not question principles and objectives of CAP, but structural surpluses and problems must be tackled to prevent collapse of CAP.

17. Broad objectives of reform should be:

- (a) elimination of structural surpluses, especially milk;
- (b) reduction in CAP's share of budget;
- (c) progress towards market clearing prices;
- (d) preservation of healthy agricultural industry.

18. Believe central element must be policy of severe price restraint. Prepared to consider combining it with direct aids to help those hardest hit.

19. Recognise restraint itself unlikely to be sufficient. Ready to consider how it can be supplemented. Already Council commitment in principle to super levy for milk. For cereals price support must relate to volume of production. For beef, intervention should be reduced. Quantitative restrictions appropriate for other commodities eg. Mediterranean products.

20. Opposed to across-the-board extension of basic co-responsibility levy principle. Avoids tackling central problem.

21. Strongly support reduction of CAP's share of budget as medium

term objective. Finance Ministers should consider urgently in relation to 1981. Synchronisation of price-fixing and budget procedures might help.

22. 1981 Price fixing: must not prejudice restructuring. Rumours of 8-10% totally unacceptable. Hope present Commission can prepare ground for proposals set at realistically low level. Surplus products should be treated more severely.

Non-Agricultural

23. If CAP cut, scope for expansion of RDF/Social Fund and possibly new policies. UK approach positive. Outstanding proposals: coal, structural measures for transport, fisheries. New policies : urban/industrial decay; energy.

24. These policies cannot solve problem by itself. Massive budget expansion would be needed.

25. Role in preventing unacceptable situation only effective if preponderantly beneficial to States likely to find themselves in this situation.

26. Revenue side: changes should be considered. May not be possible to avoid unacceptable situation by action on expenditure alone.

27. No doubt Commission will consider French/German idea of ceiling on net benefits/contributions.

MEASURES TO ASSIST INDUSTRIES IN CRISIS

28. (a) Certain industrial sectors in Community facing common problems through third country competition and depressed internal market conditions (steel, vehicles, textiles). Synthetic fibres, petrochemicals should be discussed on general approach at next Council, with Davignon present. Could Mr Jenkins make a general presentation outlining steps the Community is already taking and with guidelines for future?

(b) US Synthetic Fibres and Chemicals

New Commission will need to make major effort with the new US administration over unfair advantage of oil and gas feedstocks.

(c) EC/Japan

Common EC import regime for Japan is attractive. Member States cannot be expected to make concessions which are not reciprocated equally. EC motor industry facing critical difficulties. New Commission must pay special attention to these.

(d) MFA

Tough successor to present MFA essential. Commission must make realistic proposals.

STEEL

29. Glad that the Industry Council on 30 October was able to agree Commission proposals for production quotas under Article 58 of the ECSC Treaty. Measures very important to UK steel industry, grateful to Commission for their efforts to secure effective measures to meet the crisis in the European industry.

30. Now need effective measures on the external side. Cannot expect to impose a greater discipline on Community producers than on external suppliers. Hope Commission can negotiate early renewal of voluntary arrangements.

31. (If raised) We support the Commission's wish to provide funding for social measures on steel, and are examining the means by which the funding can be made available.

THE EUROPEAN MONETARY SYSTEMUK Membership

32. Will consider joining exchange rate mechanism when the time is right.

33. Not possible to join now. Priority is to secure sustained control of the money supply. Exchange market intervention to curb upward pressure on sterling would pose an unacceptable threat to this at present. Sterling, as virtually a petro _currency, subject to pressures not suffered by other States - particularly acute in present disturbed state of the oil market. Upward pressures on sterling seen recently would also have posed major threat to pattern of EMS exchange rate had we been members. This would not have been good for either the system or the UK.

Future of the system

34. March 1981 deadline for establishing the EMF seems unlikely to be met. UK has played a full part in discussions to date, which are helping to refine the options.

35. Premature for the government to express a view on the type of Fund until the implications have been fully worked through by the Monetary Committee and Central Bank Governments.

36. UK will co-operate in measures to extend the initial period of the EMS for as long as is necessary to enable Fund to be set up.

37. No objections to developing the ECU - but Community should proceed cautiously.

ERDF; GREEK SHARE

38. Recognise that Community should make provision for Greece for 1981. But you will know that we look to the Commission to justify the proposed 15% quota. We have asked a number of questions on this.

39. Present Commission proposals to share costs among Member States on a relative GDP basis is a helpful step, but we believe that six more prosperous Member States should bear total cost of providing for Greece. Commission figures indicate that in terms of net receipts Commission proposals have perverse affect on UK.

EUROPEAN COMMISSION

COMMISSION

Portfolios

40. Tugendhat : support his wish to continue with budget. Should be given proper coordinating authority on all matters with budget implications.
41. Richard : his wide experience of relations with developing countries make him a strong candidate for development. How does Mr Jenkins see his chances? Is Cheysson likely to move?
42. What does Mr Jenkins know of the intentions of other Member States?

Commission Staffing

43. Will continue to press to achieve 'harmonious geographical distribution' (i.e. our share). Important for us to replace present British Director General for Energy, who is retiring, (and also Transport when present Director-General retires). For Energy would back either Herzig or le Cheminant, or Audland if Commission insisted on in-house promotion.
44. Remain worried about imbalance to our detriment.

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ESSENTIAL FACTS

FISHERIES

1. 30 May Foreign Affairs Council declaration called for revised CFP to be in effect by 1 January 1981. Negotiations protracted and difficult, but progress being made: agreement at 29 September Fisheries Council on a conservation regulation, and at 28 October Council on principles of an enforcement regulation. Also agreement on 28 October to move from discussions of methodology of Commission quota proposals to actual quota figures: bargaining will start in earnest in run-up to and at next Council on 17/18 November. Agreement on two high level meetings of senior fisheries officials on 5 and 12 November to try to speed progress before next Council.

2. Main UK complaints over present Commission quota proposals are:-

- (a) suffering caused by excessive allowance for past Danish by-catches from industrial fishing (Commission intransigence on this may relate to nationality of Commissioner Gundelach);
- (b) greater allowance should be given for third country losses (mainly affects UK and Germany);
- (c) Commission must devise fair proposals for regions especially dependent on fishing. ('Hague regions') - on present Irish benefit at UK expense. Also wide and obvious discrepancy between UK quota currently offered by Commission (32% average all species) and 'minimum' demand of UK industry (45%) endorsed by recent House of Lords Select Committee Report.

3. Vital (to UK) question of access (both within 12-mile coastal belt and beyond not yet formally broached in Council (though raised by Mr Walker at lunch during 28 October Council). No firm Commission proposals. No prospect of agreement to any quota figure without adequate access arrangements.

RESTRUCTURING

4. UK preliminary work: OD agreed general approach on 10 October. Clear that if unacceptable situation to be avoided, combination of

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measures will be needed. Important at this stage not to rule out possibilities. Preliminary consultation with partners now beginning.

5. Commission preliminary work: present Commission is to produce line by line examination of budget, detailed papers on CAP and on other major spending policies. Will prepare groundwork but leave new Commission to come forward with proposals. Legacy of present Commission will be important in helping to determine new Commission's approach.

6. Timetable: present deadline set in para 7 of 30 May Council Agreement (i.e. Council will attempt to solve problem by structural changes but if this not possible proposals along lines of 1980/81 solution will be put forward to cover 1982). German public position is still that review must be complete by end 1981 though Schmidt earlier indicated privately that he thought early 1982 more realistic. Our interests best served by sticking to letter of 30 May Agreement (I.e. initially in favour of end of 1981 deadline).

7. 1% VAT ceiling: French and Germans support UK view on maintenance of

of ceiling. Raising would make problems more difficult since it would open sluice gate for more agricultural spending.

8. CAP Reform

Useful opportunity to outline our preliminary thinking and encourage Mr Jenkins to do what he can to prepare ground in such a way that new Commission will initiate a wide ranging debate on CAP reform by presenting a series of options to the Council rather than putting forward a single recipe. It will also be important that present Commission prepares proposals for 1981/82 agricultural prices which do not prejudice the restructuring exercise. (There have already been rumours that Gundelach is contemplating increases of 8-10%). New Commission will actually formally present proposals in January, but will be heavily dependent on work done under Mr Jenkins' Presidency.

9. Non-Agricultural : various proposals in existence. UK proposals for Community policy to encourage indigenous production of coal - others have been blocked because benefits UK disproportionately but this is precisely kind of policy we must have if unacceptable situation to be avoided. Moreover their argument is based on 'juste retour' for each Community policy - contrary to their position in the budget negotiation. Other proposals on the table : structural measures in fisheries/transport infrastructure. Neither would bring significant benefit to UK in present form but both offer potential. New policy areas : urban/industrial decay, energy. Considerable potential.

10. Enlargement: likely to bring further problems in that acceding States will have significant call on funds which at present benefit UK (RDF/Social Fund). If Commission follow line taken over Greece's share of RDF, UK could become net contributor to both these.

11. Revenue side: possibility of change should not be ruled out. Likely to prove difficult to avoid unacceptable situation without some means of bringing level of gross contributions into line with GNP share.

12. Ceiling on net benefits: French/German idea has not been filled out yet. This could be important as negotiation develops because promising area for UK if idea of override mechanism gained ground. However, we must be careful not to get into lead in proposing this: will be seen clearly as dictated by self-interest with risk of isolating us in negotiation. At present most we should do is to encourage Commission to look further into French/German idea.

MEASURES TO ASSIST INDUSTRIES IN CRISIS

13. EC/Japan

Commission have proposed overall Community strategy towards Japan to cover inter alia political questions, technological cooperation and unified policy on import restrictions. France and Italy which have various import quotas strongly opposed. UK has no quotas but various informal industry to industry arrangements exist. In present climate cannot accept any reduction in existing level of production. We favour tougher proposals than those the Commission has put forward. Initial Japanese reaction discouraging.

14. Aid to Industry

Commission brought forward proposals in 1978 to provide financing to industries in crisis. Proposals lapsed in face of Member States position. Proposals did not contain sufficient restructuring element. New proposals would be welcome and consistent with measures already taken under ECSC Treaty. M Davignon has launched an initiative on telematics, much of which could benefit the UK industry. We are encouraging early discussion in the Council and financial assistance might also be appropriate in addition to harmonisation.

15. Multi-Fibre Arrangement

The current MFA expires at the end of 1981. The developing countries have made clear they are looking for a much more liberal regime. The Prime Minister has told the UK industry that we shall be seeking a 'tough' successor. France, Italy, Ireland and Benelux are also likely to want a restrictive successor (as are the US and the Scandinavians). The Germans will be arguing in favour of liberalisation. The new Commission must begin drawing up a detailed draft negotiating mandate early in 1981. The negotiations themselves are not expected to begin in earnest until the Autumn. There is real potential for a serious North/South confrontation.

STEEL

16. The European steel industry is in a state of crisis. Demand is much lower than production. Commission proposed Article 58 quotas on production. Discussed at Foreign Affairs Council on 7 October and at Industry Councils on 25 and 30 October. Eventually able to reach satisfactory agreement. Main stumbling block had been German opposition to mandatory quotas. They asked for discussion to continue at the first Industry Council on the grounds that they had major national interests at stake. Agreement had proved possible on all but special steels. This was subsequently agreed on 30 October. External measures are now necessary. We look for extension of Commission mandate to negotiate renewal of present arrangements which expire 31 December 1980.

17. Commission have proposed measures to provide funding for the social consequence of restructuring the steel industry. We have ourselves applied for £140m from the ECSC to cover payments for early retirement and severance pay within the UK. We have difficulty on the vires and the payment. We cannot accept transfer from EEC Budget under Article 235 Regulation. Prefer ad hoc contributions.

EMS

18. UK membership

The Prime Minister's meeting on 19 March agreed that it would not be worth our joining the EMS exchange rate regime in the immediate future, but we should keep open the possibility of doing so when we have achieved greater success with our monetary policies.

19. The future of the system

EC heads of government resolved in December 1978 to consolidate the EMS, not later than two years after the start, into a 'final

system'' involving the creation of a European Monetary Fund, as well as the full utilisation of the ECU as a reserve asset and a means of settlement. The effective deadline for this is March 1981.

20. Much technical work has since been done in the Monetary Committee and amongst Central Bank Governors, but the French in particular have political reservations about any scheme which would involve ceding French gold to a European Monetary Fund. The Germans also have reservations about the effect of the Fund on Community liquidity. There has therefore been little political impetus to push the work forward.

21. The technical studies that have been undertaken have not yet teased out all the implications of the various types of European Monetary Fund that have been suggested. Until this is done, we believe that it would be premature for governments either to consider formal proposals for the Fund, or to make a political commitment to a certain type of Fund.

22. The March 1981 deadline is not legally binding, except in respect of the ECU swaps, which will automatically be unwound in March 1981 unless Member States take a unanimous decision to the contrary. The UK has already said that it will be content to extend the life of these swaps, and thus to ensure the continuity of the ECU.

23. The Commission, anxious to make progress on the EMS, have suggested that loans should be floated by Community bodies denominated in ECU's. We have no objection to experimental issues of ECU denominated loans, but believe the Commission should act cautiously. The market for such loans may not be as large as the Commission think.

ERDF (Greek share)

24. Treaty of Accession for Greece provides that the Community will take steps to ensure that Greece receives assistance from the ERDF in 1980. The Commission have proposed that Greece be given a 15% share, and that the existing quotas of the other Member States be reduced on a relative GDP basis. Commission figures show that the UK's net benefit in 1981 would be reduced by some 55%. We have questioned the basis of the Commission's calculations and have received some support from other Member States. We have not however, come out against the 15% figure, but we have asked that the costs should be borne by the six more prosperous Member States.

25. We have been anxious to ensure that the UK is not seen as taking the lead in opposing the provision for Greece. There are important political reasons why Greece should receive a good quota share, and our bilateral interests suggest that we should not be in the forefront of opposing the present proposals. The Greek Prime Minister raised our reported opposition with the Prime Minister in Athens on 10 October. Our stance has therefore been interrogative on the 15%, and we hope other Member States will take the lead in opposing the proposals. But we shall be anxious

to ensure that no damaging precedent is established and that the UK interests on ERDF are safeguarded in the context of the budget restructuring negotiations.

COMMISSION

26. New Commission

UK has nominated Mr Tugendhat and Mr Richard. European Council on 1/2 December will nominate complete new Commission; formal appointment will be on 1 January 1981 when Greece can legally take part in decisions; new Commission will take office on 6 January. The latest state of play on other Member States' intentions is at Annex A.

27. Portfolios

We shall wish Mr Tugendhat to be a vice-President and to retain the Budget portfolio, strengthened to give him more influence in the restructuring exercise. We have identified three other portfolios which could be of value to the UK and might be attainable: Development, Industrial Affairs and Competition policy. A British incumbent in the Development portfolio should help to redress the very poor share of aid contracts we get at the moment under the European Development Fund. Mr Richard is well qualified. But M Cheysson may be re-appointed and, if he is, our chances of dislodging him are slight. Industry is another portfolio we would like to have. The responsibility for the steel and textile industries is particularly important for us. Here too, the present incumbent M Davignon may stay, in which case our chances are slight. A third portfolio of interest is Competition where a Commissioner sensitive to the political importance to us eg. of regional aids and North Sea Oil could be useful.

28. At this stage it would be best to show some general interest in all three portfolios, until the situation becomes clearer about the fate of the incumbents. Too strong a display of interest in Development, for example, might only strengthen the French determination to hold on to it. As to the portfolios for non-British members, the field is too open yet to express any strong views.

29. Commission Staffing

UK is under-represented in the Commission, particularly in the A4, A5 (principals) and A6/7 grades which form the essential pool from which candidates for more senior posts are taken. The Commission's examination of its own structure in the light of the Spierenburg Report on its functioning, and the need to make room for Greek nationals provide an opportunity to press our claims for a better balance. We have already taken this problem up with Mr Jenkins and Mr Tugendhat and shall need to continue to do so with the new Commission. It is particularly important to ensure that there is a British successor to Mr Leonard Williams, the Director-General for Energy, who is soon to retire. We shall also want to keep the post of Director-General for Transport in British hands when the present incumbent leaves shortly.

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*plw fhs for
Meeting with Mr Jenkins
on 3 November.*

OFFICE OF THE UNITED KINGDOM
PERMANENT REPRESENTATIVE
TO THE EUROPEAN COMMUNITIES
ROND-POINT ROBERT SCHUMAN 6
1040 BRUSSELS
TELEPHONE 736 99 20

M D M Franklin Esq, CB, CMG
Cabinet Office

Dear Mr. Franklin
EUROPEAN COUNCIL

CABINET OFFICE
<i>QZ 6905</i>
30 OCT 1980
FILING INSTRUCTIONS
FILE No.

*cc Mr Alexander ✓
Mr Elliott
Mr Goodenough
Ward
30/10*

1. As agreed when we were standing in the hall at No 10 on Monday after lunch, I telephoned to Roy Jenkins yesterday to give him an account of the discussion between the Prime Minister and Thorn about the European Council agenda and to sound him out about him making a report to the Council.
2. I said that the Prime Minister had expressed the firm view to Thorn that the European Council must discuss a number of aspects of the economic situation in the Community. Her idea was not that the European Council should produce agreed conclusions; but that it must be seen to be discussing some of the major economic problems facing us all. And she thought that an exchange of views on them would be useful. She had expressed the view, with which Thorn had agreed, that Roy Jenkins ought to be given the opportunity of making a brief report on his term of office and saying something about the problems which lie ahead. This might prove a useful peg on which to hang discussion of some of the major economic problems as well as budget restructuring. How did he see it?
3. Roy replied that he had not yet given much thought to the question of his role at his final European Council. He thought the Prime Minister's idea attractive at first sight. He would discuss it with her when he saw her.

*Yours sincerely
Rita Duker
for Michael Butler*

29 October 1980

cc: D J S Hancock Esq, HM Treasury
The Lord Bridges, CMG, FCO

CONFIDENTIAL

30 OCT 1980



MFJ

cc Miss Stephens

file Europe
Pshy

B F 31-10-80

9 October 1980

The President of the European
Commission

The Prime Minister will be receiving the President of the European Commission, Mr. Roy Jenkins, for what will, in effect, be a farewell call on Monday 3 November at 1500. I should be grateful if you could let me have a brief by close of play on Friday 31 October.

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

MODBA

Paul Lever Esq
Foreign and Commonwealth Office

GT.

CONFIDENTIAL

211
EURO 1357



10 DOWNING STREET

From the Private Secretary

17 March, 1980.

Dear George

Visit of Mr. Jenkins

As you know, the President of the European Commission, Mr. Roy Jenkins, called on the Prime Minister this morning. I enclose a record of their discussion.

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

Yours ever

Michael Alexander

George Walden, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

Subject.

CONFIDENTIAL

(1) C.C. MASTERS Ser Mr Ingham
(2) Euro Council - Policy (5) Euro PD - Emg (Exhct)
(3) Euro PD - Budget
(4) Euro PD - CAP (Exhct)

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE EUROPEAN COMMISSION, MR. ROY JENKINS, AT 10 DOWNING STREET, ON MONDAY 17 MARCH AT 1115 HOURS

Present:

Prime Minister	Mr. Roy Jenkins
Sir Robert Armstrong	Mr. C. C. C. Tickell
Mr. Michael Franklin	
Mr. Michael Alexander	

* * * * *

The Prime Minister said that she was very pessimistic about the prospects for the European Council meeting in Brussels at the end of the month. She did not think that the preparatory discussions had yet got on to the right track. She was also concerned about the agenda. She feared that the preliminary discussions on the economic situation in the Community and on the European Monetary Fund would take up too much time. It would be important that the lunch on the first day should take up less time than it had in Dublin. Mr. Jenkins said that the arrangements in Brussels were such as to make it likely that substantive discussions would begin earlier than they had in Dublin. As regards the agenda, he did not think the European Monetary Fund discussion was a serious problem. For the rest he was against an agenda which contained only one item. (The Prime Minister agreed). There should be a balanced agenda with the budget taking up perhaps 40 per cent of the time. He envisaged a 2½ hour discussion on the Monday afternoon. If a solution seemed in sight, the discussion could be resumed on Tuesday. As regards the overall prospect, he thought that a solution was still some way off, but not perhaps such a distant prospect as the papers suggested. There was perhaps a 30 per cent chance of reaching agreement.

The Prime Minister said that she could see few signs of goodwill in the attitude of the French Government. Their attitude seemed to be limited to saying that we had accepted the terms at

/ the time

CONFIDENTIAL

CONFIDENTIAL

- 2 -

the time of our entry and were now stuck with them. If the French Government persisted with this argument, the Community would soon find itself in a very difficult situation. M. Barre seemed to have given a thoroughly negative briefing to the press after the Prime Minister's recent appearance on French television.

The French position on sheepmeat struck at the very roots of the Treaty of Rome: the free movement of goods was, in the Prime Minister's view, the basic principle on which the Community was founded. Mr. Jenkins agreed that France's behaviour on the sheepmeat issue had been deplorable. The Commission had now sought an injunction against the French Government. This was the most extreme step open to them. They had hesitated to take it because of the difficulty of enforcing a judgement against the French. The European Court might well announce its verdict on 28 March, i.e. on the eve of the European Council. As regards what the French Government had been saying in the previous week, Mr. Jenkins said that he was perhaps partly to blame. He had had a useful talk with M. Barre a fortnight ago. He had subsequently given an account of the discussion to the Germans, and the Germans had retailed his account back to the French. M. Barre had been upset. It was a "mini-Soames" incident. The Prime Minister asked about the position of Signor Cossiga. Mr. Jenkins said that he would almost certainly be defeated in a vote of confidence later this week. However, he would probably stay in office for the time being and preside at the European Council meeting. There was no reason why his authority should be affected but his mind would probably be on other matters. It would not be easy for him, for instance, to take any major initiative.

Mr. Jenkins said that the Commission would be putting before the Council the new figures for Britain's net contribution to the Community Budget. The contribution would certainly be larger than the previous figure of 1500 MEUA, but would be less than the figure

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CONFIDENTIAL

CONFIDENTIAL

- 3 -

of 1900 MEUA which he had heard attributed to HM Treasury. If the Commission's CAP proposals were accepted, it would be about 1750 MEUA. Mr. Jenkins did not demur when Mr. Franklin said that since the CAP proposals were unlikely to survive, the contribution would probably go over 1800 MEUA eventually.

As regards possible outcomes to the negotiations, Mr. Jenkins thought that, given the right framework, the French might be prepared to go as high as 1000 MEUA. The Prime Minister said that a solution which left Britain paying 800 MEUA, i.e., much more than the French, would not be acceptable. If the new net contribution figure was to be 1800 MEUA, then Britain would want 1500 MEUA back. Nor should the question of the duration of the solution be overlooked. A lasting answer to the problem was required which was why we had been talking in terms of our future net contribution rather than of the figure we wished to recover. Mr. Jenkins said that he saw no chance of securing a rebate of 1500 MEUA from the other members of the Community. This might be possible in the medium term, e.g., if some of the money could be spent on a major project such as the channel tunnel. (The Prime Minister pointed out that no public money would be going into the channel tunnel.) If the Commission had to put forward to the European Council a figure which they regarded as likely to constitute an appropriate compromise, they were likely to suggest 1000/1100 MEUA. The Prime Minister repeated that this would be insufficient.

The Prime Minister and Mr. Jenkins discussed the various elements which would, in Mr. Jenkins' view, go to make up the framework in which a solution to the Budget problem might be found. The Prime Minister said that she had no intention of giving anything away on fish. Mr. Jenkins said that there was no need to do so. It was the Danes who ^{were} isolated in this negotiation. Britain merely had to ensure by playing things gently that pressure on Denmark was maintained.

/ On

CONFIDENTIAL

CONFIDENTIAL

- 4 -

On the CAP, the Prime Minister was critical of the Commission's latest package. Mr. Jenkins said that it did not constitute at all a bad deal for the United Kingdom. Any attempt to control the CAP would involve discomfort for all members of the Community. The Commission's proposal certainly bore harder on the Federal Republic, on Denmark and on the Netherlands than on the United Kingdom. The Commission's concern was that, thanks to the criticism of Britain and other members, the super co-responsibility levy would be lost, that the surpluses would rise and would have to be financed in some other way. The French were pressing hard for higher prices. In the absence of the super co-responsibility levy, the only way to contain the cost of the CAP would be through a negative price fixing. This would not be obtainable. There was a real possibility that the United Kingdom would be faced with the need to agree to a 5% price rise in return for agreement to a solution on the Budget. The Prime Minister said that she would not be prepared to accept a substantial price rise because of the effect it would have on the retail price index in this country. Mr. Jenkins said that the Prime Minister should seek to avoid a crunch in Brussels on CAP prices. The end of March was in any case too soon in the CAP price negotiations to try to bring matters to a head. The Prime Minister might, however, be asked to agree to, e.g., "a flexible approach" to the price fixing.

The Prime Minister commented on the fact that Chancellor Schmidt wanted the United Kingdom to take the lead on CAP reform. This was a "poisoned chalice". Mr. Jenkins said that Chancellor Schmidt seemed to be schizophrenic on this subject. He was inclined to argue:-

- (a) that the United Kingdom should actively pursue CAP reform; but that

/ (b)

CONFIDENTIAL

CONFIDENTIAL

- 5 -

- (b) the United Kingdom should seek to create a conciliatory atmosphere in which the Budget negotiations might be pursued with France.

These two objectives were mutually contradictory.

Mr. Jenkins asked about the Government's attitude towards full entry into the EMS. The Prime Minister said that she would be reluctant to enter the EMS unless she could be sure that it would leave her freedom to manage the currency unimpaired. She was concerned lest the effort to hold a rising pound within EMS prescribed margins should affect the money supply in this country. Mr. Jenkins expressed some doubt as to whether the pound was likely to go on rising. He was less sure than the Prime Minister that the fact that Britain's exchange rate was determined by sterling's role as a petro-currency rather than by the country's industrial performance was relevant to the issue of entry into the EMS. Differential exchange rates were what counted. The problems of the DM were at least as difficult to cope with as those of the pound. The political fact which mattered was that Chancellor Schmidt was violently in favour of British membership of the EMS. A British decision in favour of full membership of the EMS would greatly improve the atmosphere in which the budgetary discussions would take place. Mr. Franklin pointed out that the French were unenthusiastic about British membership. Mr. Jenkins said that in so far as the tactical objective in the present negotiations was to isolate the French, French hostility to British membership of the EMS was a very good reason for joining. The Prime Minister said that the question of British membership of the EMS was being looked at again. The final decision would depend on a judgement as to how far our freedom to manage the currency would be limited. She did not wish to have to spend money holding the exchange rate down. Mr. Jenkins said it was arguable that membership of the EMS would in itself help to hold the exchange rate down.

/ Mr. Jenkins

CONFIDENTIAL

CONFIDENTIAL

- 6 -

Mr. Jenkins said that the other members of the Community were not expecting major concessions from Britain on energy. However, it was important that Britain should appear to be positive on the subject. An opportunity might be presented by the paper which the Commission had produced on the subject. Domestic fuel marketing arrangements in Europe were in an indescribable mess, both as between the various products and as between the various member countries. A clear, harmonised pricing policy was needed. It was nonsense to talk of a Community energy policy before the pricing issue was sorted out. Additional urgency was given to this by the fact that the American Administration now had a clearer policy. President Carter would certainly be in the lead on this issue in Venice, and Europe should be in a position to respond. The Prime Minister commented on the difficulties of achieving agreement on a European pricing policy when, for instance, labour costs varied so widely. Mr. Jenkins repeated that there was a muddle which needed sorting out. Moreover, ways needed to be found to increase investment in, e.g., conservation and renewable energy sources.

In a brief discussion of nuclear energy, the Prime Minister made the point that fusion seemed to offer the only solution in the long term. The protests of environmental lobbies against the disposal of the waste products of power plants using fission-based processes would get louder and louder. Mr. Jenkins said that the work of the JET laboratory at Culham held out the most promise for early progress on fusion processes.

At the end of the discussion, Mr. Jenkins said that he was going to Copenhagen on 28 March with the object of trying to ensure that the Danish Prime Minister, Mr. Joergensen, went to the European Council in a reasonably productive frame of mind. He also raised

/ two

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CONFIDENTIAL

- 7 -

two minor points. He had been informed that the French, for reasons of face, might try to argue in favour of retaining one of the "brakes" on the corrective mechanism. He did not think that this would make any difference to the operation of the mechanism. He hoped that the Prime Minister would take the line that what Britain wanted was the money. He also repeated the Commission's advice that we should not pursue any further the idea of an automatic receipts mechanism. The British Representative had been completely isolated when he had raised the matter at the previous week's meeting of COREPER.

The discussion ended at 1230.

Phms

17 March, 1980.

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COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

14 March 1980

Dear Michael

VISIT BY THE PRESIDENT OF THE EUROPEAN COMMISSION

I attach a brief for the Prime Minister's meeting with the President of the European Commission, Mr Roy Jenkins, for which you asked in your letter of 5 March to Paul Lever.

I am sending copies to John Wiggins (Treasury) and Garth Waters (MAFF).

*Yours ever
Michael*

M J Richardson
Private Secretary to the
Lord Privy Seal

M O'D B Alexander Esq
10 Downing Street
London

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PRIME MINISTER'S MEETING WITH PRESIDENT OF COMMISSION: 17 MARCH 1980

POINTS TO MAKE

BUDGET/CONVERGENCE

1. Useful meeting between Commission and UK officials on 3 March. Established ample scope for adequate UK solution through extra expenditure in UK in addition to revised Financial Mechanism. We shall be leaving the running on this and the new regulation to the Commission in the first instance. Important that Commission proposals seen as independent and objective. Ready to help as necessary.
2. Commission line on recent French insistence on new Commission proposals clearly right.
3. Outstanding decision for Member States is on amount and duration.
4. Commission can help on duration by not ruling out possibility of receipts formula based on differential between UK receipts per capita and Community average. Although initial objections of principle to this, increasing signs that some members considering it seriously. Best means of avoiding annual haggle and ensuring solution lasts as long as the problem. Prepared to consider alternative if achieve same objectives.
5. System could be reviewed in 1986 in the sixth year like 1975 at the same time as Financial Mechanism.
6. On amount UK position remains that we are ready to be a modest net contributor, but it cannot be more than a few hundred mEUA.

Restructuring

7. Part of solution should be a firm commitment to restructure the Budget so that not more than 55% goes on CAP Guarantee Section.

Timing

8. Must make real headway at Brussels. Parliamentary problem if no agreement in sight would be insurmountable.

LINKAGE

9. Holding to line that formal linkage not helpful. But cannot object if others wish to include discussion of other items which they see as related at European Council. Ready to make progress on all fronts but

/on

on the merits of each case.

BUDGET RELATED ISSUES

EMS

10. Schmidt attaches considerable importance to our membership as earnest of Commitment to Community. Told him we would look at it again. No decision yet. Clearly difficulties of reconciling with monetary policy.

11. European Monetary Fund likely to be discussion on basis of Commission paper. We see no reason not to hold to original timetable (ie establishment in March 1981). This date may limit how ambitious the Fund can be at first.

CAP Prices/Economies

12. No justification for price increase for products in surplus. How does Jenkins advise we handle this in light of likely French demands?

13. Do Commission still intend to reduce their price proposals if Council fails to agree to adequate economies?

14. Some of the Commission's proposals, eg reduced Community financing for the UK butter subsidy and exemptions from the milk co-responsibility levy, would depress our already low level of receipts from CAP. Paradoxical, given acknowledged need to improve our receipts.

Sheepmeat

15. Regret that Commission's attempt at an agreement on transitional measures failed. Failure due to French intransigence.

16. Glad that Commission have now decided to pursue third case at European Court and seek interim injunction.

17. We want a solution but no question of a heavy intervention regime. How does Jenkins advise we handle this question?

Fish

18. How does Mr Jenkins advise we handle fish at the European Council, given need to keep it separate from Budget?

North Sea Oil Policy (Defensive)

19. Recognise our partners' interest in our North Sea oil policies. They will continue to make a constructive contribution to Community

/objectives

objectives (prices follow market; nearly one third of production exported to Community last year; production continues to rise; sales only to Community and IEA destinations).

20. [If Mr Jenkins raises help in sub crisis] We are producing as much as good management allows, which benefits Community. No shut-in production and therefore very little scope to increase in short term.

ENERGY

21. When will Commission's paper be ready? Assume this will be the main energy subject. Further study obviously needed before decisions can be taken. Will contribute constructively to discussion of new ideas.

THREE WISE MEN (if raised)

22. Detailed discussion should be left to June European Council to leave more time in Brussels for budget discussion.

23. Can accept bulk of Wise Men's proposals. Some reservations on European Council drawing up plan of priorities. Not yet decided on number of Commissioners.

NEW PRESIDENT OF COMMISSION (if raised)

24. No strong views. Can accept choice of a candidate from one of the smaller Member States. What are Mr Jenkins' own views?

OTHER CONTACTS

25. What contacts with other Heads of Government is Mr Jenkins planning before the European Council?

ESSENTIAL FACTS

BUDGET/CONVERGENCE

(Six Points at Annex A)

Meeting with Commission Officials : 3 March

1. Meeting was generally helpful. Largely taken up with the discussion of text of possible Article 235 Regulation and of possible programmes of expenditure in the UK.

2. Tables giving details of UK spending programmes in the areas mentioned in the Commission paper of 5 February were handed to the Commission covering transport infrastructure and urban renewal. We are providing a further breakdown to make clearer which fall in special development areas and which in other assisted areas. The Commission's aim is to provide a complete dossier for Mr Jenkins by 20 March. On the regulation itself the Commission were open to suggested amendments. Discussion concentrated on the regional limitation (The Commission text had suggested that eligibility be as per the RDF regulation) and the problem of additionality. M Noel, Secretary General of the Commission, said he would try to make the formulation more elastic. On additionality the Commission said that there would have to be some reference to it in order to avoid problems with eg. Germans. He suggested that the best way of dealing with this was to use the same terminology as for the existing regional development fund. We explained our difficulties with additionality. A wording was suggested for the text which left unclear whether the Community expenditure was additional to national expenditure. Noel agreed to consider this.

3. On 12 March the French Government stated publicly that if further Commission proposals were not submitted in time before the European Council to allow a detailed examination of the questions at issue, these proposals could not be taken into consideration any more than any proposals that might be presented at the Council itself. The French seem to be preparing an excuse to postpone agreement on a solution beyond this European Council. Their position has received no support from other Member States. Our interest is to let the Commission defend itself as it did on 13 March when it drew attention to the proposals it had already made on 5 February and said it reserved the right to bring forward further proposals before the European Council. Commission statement at B. Mr Jenkins may sound the Prime Minister out on the possibility of the Commission making a compromise proposal.

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4. Mr Jenkins has not supported the idea of a receipts formula (para 4 of Points to Make), probably because he doubts the Commission can be persuaded to espouse it. But there is no evidence the Commission have done any serious thinking on how to tackle the long/problem the formula is designed to solve. term

5. Latest Commission estimates on Member States' contributions are likely to be available around 20 March.

BUDGET RELATED ISSUES

1980/81 CAP Prices/Economies Proposals

6. Price proposals include increases for all products averaging 2.4%. Lower increases of 1.5% are proposed for milk, sugar beet and beef. The proposals also include related measures, the most significant of which are a new beef suckler cow premium (but confined to the first 15 cows in each herd, which would discriminate against the UK) and 75% financing for the UK butter subsidy instead of 100%.

7. Commission said they could reduce the proposed increases if the main proposals in the economy package were not accepted.

/8. Main

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8. Main proposals in the economy package are:-

- (i) An increase in the co-responsibility levy on milk from 0.5% to 1.5% but with certain exemptions which would discriminate against the UK; and a new supplementary levy of 18 ecu/100 kg (84%) on milk deliveries.
- (ii) A general cut of 1.3 million tonnes in sugar quotas, but discriminatory allocation between Member States.

9. Our position has been:

- (i) on prices: no increases for products in surplus, support for the suckler cow premium (but without the 15 cow limitation) and opposition to the reduced financing for the UK butter subsidy.
- (ii) on economies : general welcome for objectives; support for the increased co-responsibility levy provided it is not offset by a price increase and provided the exemptions are removed; reserved position on the supplementary levy pending further elucidation of its effects; support cut in sugar quotas, but not its allocation.

10. The economy package is designed to save 1040 mEUA on the budget in a full year. The price increases might add 323 mEUA, allowing for their effect on production. In the face of general opposition to the distribution of cuts in sugar quotas and to the supplementary levy on milk (two of the main measures), the Commission seem to be weakening and ready to produce compromise proposals.

Sheepmeat

11. The Commission proposed for discussion at the 3/4 March Council a package of interim measures to last till 15 July to enable the French to lift their import controls. The main features were:-

- (i) Opening of the French market;
- (ii) Permissible national measures;
- (iii) A transitional Community financed fund of 30 million EUA from which payments could be made to prevent reduction to farmers' incomes or mitigate insufficiency of returns and prevent disturbance of market.

At the Council, Mr Walker argued that we could only accept the proposal on three conditions : a firm promise by the French not to reimpose illegal controls; no Community finance for intervention and a fair distribution of the money available from the fund. The French refused to accept them and were finally isolated in insisting on Community-financed intervention.

Fish

12. France and others may insist on reference to fish in Presidency conclusions in European Council. We shall resist this. Not clear exactly what they want when they call for linkage.

13. So far, the UK fishing industry agree with HMG's policy of seeking an early CFP settlement on the right terms. But question is very sensitive. Industry and Parliament would react adversely

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if any specific concessions were made on fish in the context of the budget negotiations.

14. It is significant that the 29 January Fisheries Council recorded the first (small) progress on CFP internal regime for some years. The next Council, in late April or May, will probably start work on the key elements of a settlement (quotas and access). Outstanding difficulties on the conservation regime are still under discussion bilaterally. UK willing to consider elements of CFP separately, but formal agreement only possible in the context of an overall package.

15. Timing problem. Fish had seemed well damped down until after European Council. But Commission's Director General for Fisheries (Gallagher) now visiting London on 17 March to start consultations in capitals on Member States' precise negotiating requirements, so that Commission make revised proposals. On difficult questions of quotas and access preference, battle lines not yet drawn up. Indicating our requirements before. European Council may provoke row and destroy recently improved atmosphere. Not revealing our position may result in unsatisfactory preparation of next stage of negotiation, hindering early progress towards CFP settlement.

16. North Sea Oil Policy (Defensive)

We do not wish to raise this issue. But Mr Jenkins may do so in order to urge us to do more. Tactically the best response at this stage is to deny the legitimacy of any linkage and to continue to bring out the extent to which North Sea policy is playing a helpful role.

ENERGY

17. The Commission is expected to table a wide-ranging paper designed to stimulate more ambitious Community energy policies. It may include proposals for a levy or tax on oil imports or consumption, the implications of which will need careful study. But we can welcome the idea of a new look at where Community energy policies should be heading.

THREE WISE MEN

18. Not yet clear how much discussion there will be at European Council or whether non-controversial items only will be settled there and then. Our interest is to get any detailed discussion deferred until Venice in June. There is an informal Ministerial meeting taking place in Brussels on 17 March to prepare for the European Council on this topic.

19. The Lord Privy Seal is expected to write to the Prime Minister shortly with proposals on HMG's approach to Wise Men's Report.

NEW PRESIDENT OF COMMISSION

20. The Italian Presidency have said that they will want to raise this at the European Council. Mr Jenkins' term of office is up at the end of year and his successor should be named at the time of the June Council. There has been speculation on Mr Jenkins being asked to stay on. He has not ruled this out. But the main candidates are Gundelach (Danish - present agriculture Commissioner) and Thorn (Luxembourg Foreign Minister). We accept that the new President is likely to come from a small country and do not think

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that any candidates we have heard of are so good or bad as to demand that we take a position. Our interest is to say nothing, let others woo us, and spin the process out until June.

FOREIGN AND COMMONWEALTH OFFICE

14 March 1980

CONFIDENTIAL

THE SIX POINTS

ANNEX A

UNITED KINGDOM BUDGET PROBLEM

1. The communique of the Dublin European Council provided the framework for a possible solution. There are no issues of principle outstanding. A satisfactory settlement might contain the following elements.
2. First, the removal of the existing constraints on the operations of the Financial Mechanism. The Regulation embodying this Mechanism (1172/76) should be extended with the existing review clause replaced by a new one with a similar timescale i.e. a review not later than the end of the sixth year.
3. Second, there must be supplementary measures, as foreseen in the Dublin communique, leading to greater participation by the United Kingdom in Community expenditure. We can decide on the method or methods in the light of the Commission's proposals. They would be subject to review at the same time as the Financial Mechanism.
4. Thirdly, we are willing to accept that the United Kingdom should be a modest net contributor to the Community Budget. The combination of the Financial Mechanism and the improved receipts in the UK from Community expenditure should be devised in such a way that the UK would remain a modest net contributor not only for 1980 but in future years.

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

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

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

GPS 310

UNCLASSIFIED

FRAME ECONOMIC

FM UKREP BRUSSELS 131610Z MARCH 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 1447 OF 13 MAR

INFO IMMEDIATE PARIS, PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE,
ROME, DUBLIN, BONN, LUXEMBOURG.

PARIS TELNO 287 TO FCO:

UK BUDGET PROBLEM.

1. THE COMMISSION SPOKESMAN MADE A STATEMENT TODAY ALONG THE
FOLLOWING LINES:

"THE COMMISSION HAS TAKEN NOTE OF THE STATEMENT BY THE
FRENCH COUNCIL OF MINISTERS YESTERDAY ABOUT THE FORTHCOMING EUROPEAN
COUNCIL.

IN THAT STATEMENT, REFERENCE WAS MADE TO THE RESPONSIBILITY
OF THE COMMISSION TO MAKE PROPOSALS UNDER THE MANDATE GIVEN TO IT
BY THE LAST EUROPEAN COUNCIL. THIS MANDATE WAS AS FOLLOWS:

(VERBATIM EXTRACT FROM THE PRESIDENCY CONCLUSIONS
OF THE DUBLIN SUMMIT)

IN FULFILMENT OF THIS RESPONSIBILITY, THE COMMISSION MADE
PROPOSALS TO THE COUNCIL ON 5 FEBRUARY 1980. THESE PROPOSALS HAVE
BEEN MADE PUBLIC. SINCE THEN, THE MATTER HAS BEEN BEFORE THE
COUNCIL. THE COMMISSION'S PROPOSALS WERE CONSIDERED BY THE FINANCE
COUNCIL ON 11 FEBRUARY AND ARE TO BE DISCUSSED BY COREPER TODAY.
IN THE MEANTIME, WORK TO CONSIDER POSSIBLE SUPPLEMENTARY MEASURES
WHICH MIGHT FIT INTO THE KIND OF FRAMEWORK OUTLINED IN THE
COMMISSION'S DOCUMENT OF 1 FEBRUARY HAS CONTINUED."

2. ASKED IF THE COMMISSION INTENDED TO MAKE FURTHER PROPOSALS,
THE SPOKESMAN REPLIED:

"THE COMMISSION NATURALLY RESERVES THE RIGHT TO BRING
FORWARD NEW IDEAS OR PROPOSALS BEFORE THE EUROPEAN COUNCIL. WHETHER
IT WOULD BE USEFUL TO PUT FORWARD FORMAL PROPOSALS IS NOT CLEAR.
THIS IS NOT THE USUAL PRACTICE. ONCE A DECISION OF PRINCIPLE HAS
BEEN TAKEN BY THE EUROPEAN COUNCIL, IT IS NOT TOO DIFFICULT TO
WORK OUT FORMAL PROPOSALS TO GIVE EFFECT TO IT".

FCO PASS ADVANCE COPIES TO:-

FCO BRIDGES, HANNAY, SPRECKLEY, CHRISTOPHER (NEWS)

CAB FRANKLIN, ELLIOTT, THOMAS

TSY MICHELL, THOMSON, DAVIES (PRESS)

NO.10. ANSON (PRESS)

BUTLER

FRAME ECONOMIC
ECD (I)

[ADVANCED AS
REQUESTED]



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

From the Minister

CONFIDENTIAL

PRIME MINISTER

VISIT BY MR ROY JENKINS

Roy Jenkins will be seeing you on 17 March. The lamb problem will of course be only one of a wide range of current Community problems to be discussed, but in view of the effect it is having on Community relations more widely I think it would be valuable if you were able to find time to put across to him the following general points:-

(a) We appreciate the difficulty for the Commission in exerting pressure on the French Government to comply with the Court ruling; their recent pronouncements have outlined their willingness to regard compliance with Community law as no more than a bargaining counter in negotiations. But we hope the Commission will do everything possible to bring home to the French the real harm they are doing to the Community.

(b) French insistence on intervention is the major obstacle to progress on a regime. It would be grossly uneconomic to freeze good fresh lamb for intervention stores in order to support market prices. Disposal of stocks would be costly and disrupt trade, endangering New Zealand exports.

(c) Lamb is a commodity in which we have the major producing and consuming interest in the Community; if we cannot get a regime to suit our interests there can be little hope of getting any improvement in the balance of CAP expenditure in our interest.

I am copying this minute to the Foreign Secretary and Sir Robert Armstrong.

Peter Walker
W

PETER WALKER
14 March 1980
Approved by the Minister
and signed in his absence

MINISTRY OF DEFENCE
PARLIAMENTARY SECRETARY



14 MAR 1980

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MAR 1980

Approved by the Minister
and signed in his absence

File

B/F 14.3.80

5 March 1980

Visit by the President of the European
Commission


Further to our telephone conversations earlier today it has now been agreed that the President of the European Commission, Mr. Roy Jenkins, will be calling on the Prime Minister at 1115 a.m. on Monday 17 March.

I should be grateful if you could let me have a brief for the Prime Minister's use by noon on Friday 14 March.

I have not yet discussed with the Prime Minister the question of whether or not the Foreign and Commonwealth Secretary should be invited to attend the meeting. Perhaps we could have a word about this nearer the time.

Michael Alexander

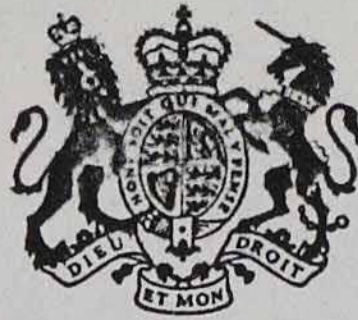
Paul Lever, Esq.,
Foreign and Commonwealth Office.



FILE

VLS

Euro pol



10 DOWNING STREET

From the Private Secretary

26 November 1979

Call by the President of the European Commission

The President of the European Commission called on the Prime Minister here this morning. I enclose a copy of the record of their discussion.

I am sending copies of this letter and its enclosure to Tony Battishill (H.M. Treasury), Bill Burroughs (Department of Energy), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

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

VLS

CONFIDENTIAL

Copy to: Master Sec.
Euro Pol: Doherty (P.D.W.)
Euro Pol (Budget) Pt 3.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE EUROPEAN COMMISSION, MR. ROY JENKINS, AT 10 DOWNING STREET ON MONDAY 26 NOVEMBER 1979 AT 1015

Euro Pol.

Present

The Prime Minister

Mr. Roy Jenkins

Mr. M. O'D. B. Alexander

Mr. C.C.C. Tickell

* * * * *

European Council Agenda

The Prime Minister said that she hoped the discussion in Dublin would get on to the problems of the Budget at an early stage in the proceedings. The first item on the agenda was to be the economic and social situation. She hoped that no-one would try to extend the discussion unduly. It was essential that there should be a serious discussion of the Budget problem followed by the issuing of clear instructions to officials so that they could draft overnight. If there were to be a discussion at dinner, there would have to be an official note-taker present. But her own preference would be to continue the pre-dinner discussion until 8 or 9 p.m. and to have a later dinner. Mr. Jenkins said that he agreed about the need for an early and substantive discussion of the Budget but that he thought a short preliminary discussion on a non-controversial subject would be useful. The only draw-back might be that some members of the Council might prefer a pause for thought in the discussion on the Budget before formulating instructions to officials.

The Budget

The Prime Minister said that she hoped other members of the Council would come to Dublin prepared to move from their present positions. She was not prepared to change her own demands. She was looking for a refund lying somewhere between the present net contribution on an importer pays basis (1552 meua) and that

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- 2 -

on an exporter pays basis (1814 meau). She wanted all restrictions removed from the financial mechanism and she wanted a solution which would last as long as the problem. She did not want to have to go through the present argument again in three or four years' time. Mr. Jenkins observed that to seek to have the 85 per cent of GDP qualification removed from the financial mechanism would instantly precipitate an argument about the duration of the solution being sought by the UK. He added that there was no chance of securing in Dublin a settlement on the figures indicated by the Prime Minister. The Prime Minister replied that she considered she had a good chance of getting a settlement on the basis she wanted before she had finished with the problem. In any case she could not settle for less. Failure to produce an equitable solution would lead to intensified demands in the UK for our departure from the Community. The Government would then find itself in the unenviable position of having to defend British membership of an organisation to which our contribution was demonstrably inequitable. Nonetheless she had no intention of leaving the Community and intended to make this plain in Dublin. She was not seeking a renegotiation on 1975 lines. The question of British membership was not at issue. But Britain had too strong a case to settle for less than broad balance. Indeed Britain ought to be a beneficiary from the Budget. She had perhaps been unwise in giving up this card at such an early stage in the discussion: as it was she did not intend to surrender a penny more. There would be a very genuine crisis unless and until Britain got what it was fully justified in demanding.

Mr. Jenkins said that he was glad that the Prime Minister had no intention of leaving. He agreed that there was no mechanism for expelling a member. Britain's departure from the Community would be a disaster for everyone. A number of members of the Community clearly wished to be helpful. The Benelux countries and the Federal Republic would make no difficulties about agreeing on an unrestricted financial mechanism

CONFIDENTIAL

/and on

CONFIDENTIAL

- 3 -

and on something on the receipts side. Ireland would try to provide fair Chairmanship and to help to a limited degree though their position was not so very far from that of France. Italy was "all over the place" and had recently changed their position on the CAP in an unhelpful, and probably unwise, manner. The French and the Danes were likely to be most difficult. President Giscard in particular was likely to deploy a series of casuistical arguments against the British claim. He had ^{claimed} in discussion with Mr. Jenkins in Paris on the previous Friday, that Britain had no reason to complain about the CAP because in terms of receipts per head of the farming population she was doing well. Mr. Jenkins said that he had never seen President Giscard as unimpressive as he had been during the course of this discussion.

Mr. Jenkins asked the Prime Minister what she would do if half way through the Dublin meeting it was clear that she could get agreement on a drive against the distortions in the CAP; on an unqualified financial mechanism; and on the opening of a window on the receipts side of the Budget. This would be regarded by many as a triumph. The Prime Minister said that she would reply that it was not enough. Agreement on ~~the~~ reform of the CAP would, of course, be important. But it would also be very difficult to implement and would not produce any money in the short term. She wanted a solution on the financial side in 1980/81. Mr. Jenkins said that in these circumstances there could be no solution in Dublin. The various parties were not within hailing distance of each other. What would happen then? The Prime Minister said that she would be prepared to extend the meeting over the weekend. Mr. Jenkins expressed ~~the~~ scepticism and mentioned the possibility of a further meeting later. The Prime Minister said that the Community had already had a long time to think about Britain's problem. She was not clear why a resumed meeting some weeks later would produce better results than those on offer in Dublin.

/Mr. Jenkins

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CONFIDENTIAL

- 4 -

Mr. Jenkins said that if there were no solution and if, as the Prime Minister had already said, Britain remained a member, he assumed that the Government intended not to behave illegally. The Prime Minister said that the French had shown the way on this. But, leaving on one side the question of what would or would not be legal, there would be no movement within the Community until Britain got satisfaction.

She did not want Mr. Jenkins to pass this message on because she did not wish other members to think that they were being threatened. Mr. Jenkins said that he would not tell anyone else what the Prime Minister had said. He wondered whether Britain could afford to block all movement. This would, for instance, mean that there would be no agricultural price settlement and no special measures for milk. Last year's prices would obtain. How long could Britain's farmers tolerate this position in a year when inflation was expected to run at 16 or 17 per cent? The Prime Minister repeated that there would be no movement in the Community until Britain received satisfaction.

Mr. Jenkins said that the Prime Minister's position on other issues might be important in Dublin. In making the point, he did not have in mind direct linkage so much as the need to create a good atmosphere. Chancellor Schmidt thought he had a grievance about oil prices. He believed that Britain was taking the lead in pushing up oil prices. The Prime Minister denied this and pointed out that we followed the Libyans, Algerians and Nigerians in charging the OPEC prices for quality crude. Mr. Jenkins asked about the prospects for a fisheries agreement. He said that the discussions were not going too badly. The Prime Minister was non-committal but stressed the need for adequate conservation provisions in any agreement. Mr. Jenkins asked about membership of EMS. The Belgians and the Germans would very much like to see Britain join. The Prime Minister

/said that

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- 5 -

said that in the end she would like to join the mechanism but that it was difficult to do so now. Exchange controls had just been relaxed. If there were a collapse in Iran, sterling might go up very rapidly by 4 cents or more against the dollar. Finally, membership of the EMS might make it more difficult to control the money supply. Mr. Jenkins commented that if the Arabs were to switch out of dollars into deutschmarks, the Federal Republic would be equally vulnerable. A statement that Britain contemplated early membership of the EMS would have an excellent effect in Dublin. Membership of the EMS would also, of course, make some additional money available. Mr. Jenkins repeated that in making these suggestions, he did not have in mind bargaining but the need to create the impression that the new British Government was more communautaire than its predecessor.

The Prime Minister expressed impatience with the wish of the other members of the Community to have more evidence that the Government was Community minded. The Government had helped rescue the Europeans after the Tokyo Summit by offering to produce 5 million tonnes of oil more than our own national depletion policy would have indicated. We were providing major agricultural and industrial markets for our European partners. The effect of the CAP had been to raise prices here and to force us to take agricultural products we did not need. In asking for more, the other members of the Community were seeking to elevate expediency into a principle. It would be more helpful if they were to recognise what the new Government was trying to do in the UK to increase the GNP and to acknowledge that removal of Britain's budgetary burden would make this, and hence convergence, significantly easier. Britain's Budget contribution cost every British taxpayer 2p on the income tax. It was more than our entire aid budget. It made no sense at all.

/Mr. Jenkins

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CONFIDENTIAL

- 6 -

Mr. Jenkins said that he saw some danger of building up a head of steam in the UK on the budgetary question that could not be controlled. The Prime Minister said that there was already an uncontrollable head of steam. Mr. Jenkins said that there would have to be bargaining at some stage. The Prime Minister had taken up a very rigid position. Even Chancellor Schmidt was at present inclined to think the Prime Minister was being unreasonable. President Giscard was likely to take the line that whatever the Budget settlement, he would not agree to it until a solution had been found to the sheepmeat problem. The Prime Minister said that if, as a result of the difficulties, members of the Community began to say that they would prefer Britain to leave, they would in effect have lost the argument since they would be admitting that they could find the money themselves. Mr. Jenkins said that some might say they would prefer to find the money than to continue an apparently endless argument about Britain's contribution. The Prime Minister repeated that she wanted to achieve broad balance in 1980/81. She wanted a clear net gain of £1000 million give or take £50 million on either side. She recognised the difficulties of achieving this but considered it might be easier than the renegotiation of the CAP. Mr. Jenkins said that a restructuring of the CAP would have to be achieved in the next two years and before the 1 per cent VAT ceiling was breached since otherwise the Community would begin to collapse. The CAP lay at the root of Britain's problem. If it could be resolved, Britain's budgetary difficulties would be seen to be only temporary. Many of the other members of the Community were prepared to pay more to help overcome this temporary difficulty. Nonetheless, it would not be easy to find a solution. Other members had difficult budgetary situations. Adjustment of their budgets, even if the sums involved were not great, would be hard for them to make. The Prime Minister repeated that whatever the justification, the present situation was wrong and inequitable. She intended to stick to her demands. She had no intention of leaving the Community. She had no intention of boycotting meetings. Mr. Jenkins commented that the Dublin Council promised to be an interesting one.

CONFIDENTIAL /At the end

CONFIDENTIAL

- 7 -

At the end of the discussion, Mr. Tickell said that it would be useful to the Commission to know how the British Government would use any money that became available through the receipts window. He recalled that the Commission paper mentioned coal, transport and agricultural improvement as areas that might be explored. The Prime Minister undertook to have the necessary study done but stressed that any money that was forthcoming under this head would have to be used as a substitute for existing expenditure.

The meeting ended at 1115.

Print

26 November 1979

CONFIDENTIAL

CALL ON THE PRIME MINISTER BY THE PRESIDENT OF THE
EUROPEAN COMMISSION, 26 NOVEMBER

POINTS TO MAKE

BUDGET/CONVERGENCE

1. Ready to discuss latest Commission paper.
2. Commission ideas on improving budget balance in favour of structural policies worth considering. Not an answer to immediate problem but we can build on it for future. The best prospect for the Community is to reduce agricultural expenditure in order to shift resources to other sectors.
3. Welcome Commission recognition in principle of need for action on receipts side. But would have preferred a specific receipts mechanism. Much the best way of tackling the problem. Intend to raise at Dublin.
4. Studying Commission's ideas on increasing Community expenditure in UK. It would be of more interest to us if it operated as an automatic allocation than if it were dependent on long arguments about each of the policy areas covered.
5. No weakening in our determination not to make an unreasonably large net contribution in 1980 or thereafter.

COMMON AGRICULTURAL POLICY

CAP Expenditure

6. We welcome the Commission's recommendation on Italian proposals to cut CAP guarantee share of the Community budget and shift resources to structural policies. Must be done within the 1% ceiling.
7. Understand Commission want European Council to look at resumé of Commission proposals on CAP financing. We are against substantial discussion on these. Proposals only just out. No

/time

time to prepare discussion. Matter for Agriculture Ministers first.

Sheepmeat

8. No question of conceding intervention-type regime or unbinding of Community's GATT obligations towards New Zealand as a trade-off for budget concessions. What do the Commission propose to do to keep up pressure on the French to comply?

ENERGY

9. Agree that energy should be discussed on basis of Commission paper. No link between energy and budget. No valid complaint against UK oil pricing and disposal policy.

EMPLOYMENT AND SOCIAL POLICY: WORK SHARING

10. Need for caution but could accept a compromise provided it is generally acceptable to employers and does not fuel inflation.

THREE WISE MEN

11. Remit report to Foreign Ministers for study.

Reduction in Number of Commissioners

12. Major change. Needs study.

EUROPE IN 1990. AND "TELEMATIQUE"

13. Agree that "telematique" is important. Prepared to examine the Commission proposals constructively.

FISH

14. No need for substantive discussion at Dublin.

15. Now clear we are serious about seeking satisfactory overall settlement. Welcome Commission's recommendation of urgent need to safeguard stocks and start with Community conservation regime.

/ESSENTIAL FACTS

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BUDGET/CONVERGENCE

1. Latest Commission paper covered in Brief for European Council submitted separately.

CAP

2. The Commission recommend that Italian ideas for changing balance of expenditure from CAP to structural policies be pursued. They are therefore on the table despite signs of Italian change of heart. But Commission approach is geared to more rapid expansion of structural funds alongside continued slower growth of agricultural expenditure. We want a direct shift from agriculture to other areas. A Summary of Commission proposals for cutting CAP expenditure by 1 billion EUA is expected to be before European Council. Main proposals on milk (to increase the existing general co-responsibility levy plus an additional much higher levy on those who have increased production compared with a base period).

ENERGY

3. The Germans have criticised the UK for allowing North Sea oil to lead price rises, most recently at the latest Finance Council which was preparing the Dublin Summit.

EMPLOYMENT AND SOCIAL POLICY: WORKSHARING

4. A draft resolution will be discussed at the Social Affairs Council on 22 November. Issue also likely to be raised at European Council. This follows 18 months of discussion regarding a Community position on working time.

THREE WISE MEN

5. The Council is to have a preliminary discussion of the Three Wise Men's Report on 29/30 November. Mr Jenkins will have had a copy since 20 November, when the Report was distributed to Member States.

EUROPE IN 1990 "TELEMATICS"

6. The Commission have asked that their Report, submitted to the Strasbourg European Council in June, on structural development prospects until 1990 should be discussed further. It is platitudinous and objectionably interventionist. The Commission intend to submit a supplementary paper on "telematics" (i.e. the convergence of computer and telecommunications technologies) and the implications for a Community approach to information technology. Mr Jenkins and Commissioner Davignon want to rouse the Community to the challenge of the information era. Heads of Government will probably be asked to give a general endorsement of the importance of this sector with specific proposals for Community action to be discussed later. We shall not want to take the lead but will be prepared to examine proposals on their merits.

FISH

7. Little progress recorded at 29 October Fish Council but atmosphere improved. Next Fish Council on 3/4 December.

Foreign and Commonwealth Office

23 November 1979

CONFIDENTIAL

European Policy



Foreign and Commonwealth Office

London SW1A 2AH

23 November 1979

Dear Michael,

President of the Commission

/ As requested in your letter of 9 November, I enclose a brief for the Prime Minister's use at her meeting with Mr Jenkins on 26 November.

Your office agreed that the brief could reach you today to allow it to take account of the Commission's latest paper on budget/convergence (UKREP telegram No 6251). More extensive briefing is in the briefs prepared for the European Council.

Yours etc

A handwritten signature in cursive script, appearing to read 'Paul'.

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

CONFIDENTIAL

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Foreign and Commonwealth Office

23 November 1979

PERSONAL AND CONFIDENTIAL



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

From the Minister's Private Office

G C H Walden Esq
Private Secretary to the SOSFA
FCO
Downing Street
London SW1

20 November 1979

Prime Minister

Dear George,

ROY JENKINS

I doubt that Mr Gundelach is altogether objective. He would like to be President himself. But you should be aware of this.

As you know, Commissioner Gundelach paid a visit to my Minister yesterday to discuss the economy measures that he hopes to propose to the next Agriculture Council. On the way back from lunch he travelled alone with my Minister and Mr Buchanan-Smith, our Minister of State in the Commons. My Minister has asked me to let you know that Mr Gundelach was surprisingly highly critical, in the private conversation that then took place, of the performance of Mr Roy Jenkins.

Firstly, Mr Gundelach said that Mr Jenkins had totally misunderstood the role of the President of the Commission and was consequently overplaying his hand. Secondly, it was all too apparent that he had not taken the trouble to master the detail of the intricate Community policies for which the Commission was responsible and on which he nevertheless did not hesitate to speak. Thirdly, he was presenting the British case in internal Commission discussions in a manner which was so crude and overt that he created resentment and hostility to the case rather than understanding and sympathy for it.

Finally, Mr Jenkins' own staff were disappointed and demoralised by his behaviour.

My Minister was surprised at this outburst as Mr Jenkins had always been full of praise for Mr Gundelach and would like you to draw this to the attention of the Foreign and Commonwealth Secretary. I am sending a copy of my letter to Mike Pattison at No 10.

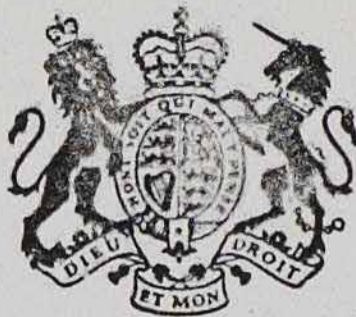
Yours sincerely,

G R Waters

G R WATERS
Principal Private
Secretary

CONFIDENTIAL

VLS



FILE BF 22/11/79

10 DOWNING STREET

CC HMT
MAFF
CO

From the Private Secretary

9 November 1979

Dear Paul,

President of the Commission

The Prime Minister agreed earlier this week that it would be wise for her to have a further meeting with Mr. Jenkins before the European Council. The meeting has now been fixed for 10.00 a.m. on Monday, 26 November.

I would be grateful if a brief could reach me by close of play on Thursday, 22 November.

I am sending copies of this letter to Tony Battishill (Treasury), Garth Waters (MAFF) and Martin Vile (Cabinet Office).

Yours ever

Richard Alexander

Paul Lever, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

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European
Policy

PERSONAL



CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

23 October 1979

Dear Barth,

I have sent under cover of a separate letter a copy of the record of the Prime Minister's talk yesterday with Mr. Roy Jenkins.

You will note that Mr. Jenkins raised the question of Commissioner Gundelach's position. You will wish to be aware that Mr. Jenkins went on to say that he regretted the difficulties that had arisen between Mr. Walker and Mr. Gundelach and hoped that it might be possible to secure an improvement in their relations. The Prime Minister took note.

Yours sincerely

Richard Alexander

G.R. Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

CONFIDENTIAL

CONFIDENTIAL

TAP



10 DOWNING STREET

From the Private Secretary

23 October 1979

Meeting between the Prime Minister
and Mr. Roy Jenkins

I enclose the record of the Prime Minister's discussion with the President of the European Commission which took place here yesterday. In view of the sensitivity of a number of points which it covers, I should be grateful if you could arrange that the record is seen only by those who genuinely need to read it.

I am sending copies of this letter and its enclosure to Tony Battishill (HM Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Martin Vile (Cabinet Office). I am also sending a copy of this letter, together with a copy of the passage dealing with telematique to Ian Ellison (Department of Industry).

M. O'D. B. ALEXANDER

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

CONFIDENTIAL

TCR

23 October 1979

As I told you on the telephone, your Minister's letter to the Prime Minister of 19 October about her meeting with Mr. Jenkins arrived after Mr. Jenkins's departure. However, I have put Mr. Walker's letter to the Prime Minister. She has noted its contents but has made no comment.

MO' DBA

G.R. Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

CONFIDENTIAL



CONFIDENTIAL

cc Master
European Policy, CAP,
Broadcasting, BBC
external Service.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRESIDENT
OF THE EUROPEAN COMMISSION, MR. ROY JENKINS, AT 10 DOWNING STREET
AT 1130 ON MONDAY 22 OCTOBER

Present:

The Prime Minister	Mr. Roy Jenkins
Mr. M. Franklin	Mr. C.C.C. Tickell
Mr. Michael Alexander	

* * * * *

Following a reference to the meeting of Community Foreign Ministers at Ashford Castle, the Prime Minister said that there were too many European meetings at Ministerial level. She hoped that the report of the Three Wise Men would recommend a reduction in the number of such meetings. She also hoped that the Three Wise Men would come down in favour of having one Commissioner per member country. Mr Jenkins said that he agreed on both counts. Two Commissioners per country would be ridiculous after enlargement had taken place. However, he thought that the French, who had previously favoured the single Commissioner approach, might be having second thoughts.

Mr. Jenkins congratulated the Prime Minister on the speech she had made in Luxembourg. He commented particularly on the parts which had not made the headlines. The Prime Minister said that no-one paid any attention to philosophy. Mr. Jenkins disagreed and said that he thought that a lot of influential people would read the speech with care.

Community Budget

The Prime Minister said that Britain was seeking an equitable solution to the problem of the Community Budget. She was assuming that Britain's partners would accept the justice of the claim. The obligation flowing from the 1970 language that she had quoted in the Luxembourg speech was clear. There was no question at this stage of our threatening anything: the expectation was that our partners would meet their obligations. HMG intended to conduct the negotiation according to the Queensberry Rules. However, if others

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/ declined to

CONFIDENTIAL

- 2 -

declined to abide by the rules, Britain would not either.

Mr. Jenkins said that he was glad to hear that the Prime Minister intended to remain within the rules. It was important not to talk about withholding Britain's contribution. Both the present British Government and the previous one had always succeeded in avoiding doing anything illegal. The French had been extremely provocative in their reaction to the European Court's judgement on sheep meat. He and Mr. Gundelach had been taking a very tough line with them. Britain should not follow the French example if we did not achieve a satisfactory result in Dublin. There was a whole range of retaliatory measures open to us which did not involve illegality.

Turning to the handling of the Dublin meeting, Mr. Jenkins said that he knew the Prime Minister needed to achieve a substantial result there. He supported her in this objective. But in his view it would be wrong to stake everything on the Dublin meeting. There would of course have to be a crisis there: the occasional crisis did the Community no harm. But it was important that the Prime Minister should not become a prisoner of her public position. If the Government were to achieve a reasonable result in Dublin it would be a remarkable success considering how short the Government's period in office would by then have been. The Prime Minister should avoid a situation where such a success might either be unacceptable to her or be presented by others as a failure. The Prime Minister said she was not prepared to be fobbed off with a compromise solution. If the Community were not prepared to endorse and pay for an equitable solution to the Budget problem, she would have to reconsider some of her attitudes to the Community. The House of Commons was about to reassemble and she expected to be under constant attack on the Budget question thereafter. It would be no good for the Community to offer her, say, five or six hundred million pounds as a full solution.

Mr. Jenkins said he took the point. But the other members of the Community were unlikely to regard it as right to put any country in a position where its net contribution was in balance regardless of the policies it pursued. This would mean that the country in

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CONFIDENTIAL

- 3 -

question was not concerned by the way the Community's policies developed and would lead to an attitude of indifference about the consequences of membership. If, for instance, Britain were put in that position it would remove any pressure on her to reform the CAP. The Prime Minister said there was no danger of this in her case. Even if Britain's contribution was inbalance, she would not be prepared to see the total size of the Budget grow. She would not wish to see the amount of British money passing through the Community's hands increased. Nor would her interest in securing reform of the CAP diminish. The CAP had been catastrophic for Britain. Indeed there were few Community policies which had been advantageous for this country. Community policy on fish, on industrial matters, on energy and on trade (eg the Multi-Fibre Agreement) had all been unhelpful. The Community had failed to react with sufficient speed or vigour to the fact that US subsidies on oil were giving them an edge in all areas where oil, whether as a source of energy or as a base for synthetics, was a factor in price.

Mr. Jenkins took note of the last point and undertook to ensure that Vicomte Davignon followed it up soon. On the general point, he said that membership of the Nine gave Britain a stronger negotiating position than she would enjoy in isolation. He cited the Multi-lateral Trade Negotiations as a specific example. He added that Britain's position in 1976 would probably have been much more serious had she not been a member of the Community. (The Prime Minister agreed.) Even where agriculture was concerned, Britain had not done as badly as might at first appear. It was not inconceivable that a national policy based on deficiency payments might have cost more than the present contribution to the Budget. The Prime Minister disagreed with the last point. She said that the combination of high intervention prices and co-responsibility levies was absurd. Its only effect was to keep the Brussels bureaucracy in business.

Mr. Jenkins asked how the Prime Minister intended to play the energy card at Dublin. He was not asking that Britain should in any way surrender control of North Sea oil but merely that the matter should be handled less casually. He was aware that 50% of

CONFIDENTIAL

/ Britain's oil

CONFIDENTIAL

- 4 -

Britain's oil exports already went to Europe. This could be turned to advantage. Britain should operate like a garage dealing with local customers. One did not offer preferential prices: one offered preferential treatment. Herr Schmidt was particularly interested in security of supply. The Prime Minister said that HMG did not have sufficient control of the activities of the oil companies. Mr. Jenkins was in fact suggesting that all long-term contracts being negotiated through BNOG should be submitted to her. However the matter could be looked into further.

The Prime Minister said that at some stage she might have to remind the other members of Britain's contribution to the defence of Europe. Mr. Jenkins said that this was a card that had to be played with considerable caution. He had been involved in an earlier occasion (in 1968) when Mr. Wilson had tried this tactic with the Germans and it had backfired very badly. A move towards membership of the EMS exchange rate mechanism might be a more useful card. Was there any chance of HMG making such a move? The Prime Minister said that it was still too early. She wanted to see the results of a further relaxation of exchange controls. She recognised the political advantages but was not prepared at present to take the risk with the money supply that full membership would involve. Mr. Jenkins pointed out the risks of leaving membership too late. The fundamental problem with Britain's membership of the Community as a whole had been that we had joined too late and at the wrong time. There were great disadvantages in joining an organisation whose rules had been formulated in one's absence. Moreover, in remaining outside the exchange rate mechanism Britain was denying herself the interest rate subsidy. This would be worth some 200 m.u.a. and would be well worth having in its own right. The Prime Minister did not regard a figure of 200 m.u.a.s of any great significance.

Turning to the personalities involved, Mr. Jenkins said it was essential for the Prime Minister to retain Chancellor Schmidt's support. Without Herr Schmidt, the UK would be completely isolated and finding itself in a position where a rupture with the Community was a real possibility. It would be important to bring home to Herr Schmidt the need to push President Giscard into being reasonable:

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/ given the

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- 5 -

given the importance he attached to the Franco/German relationship this would not be easy. With Herr Schmidt's support, it should be possible to secure the backing of the Italian, Dutch, Belgian and Luxembourg Governments. The Danes and the Irish would be difficult. But with the backing of a reasonable cross-section of the Community the isolation of President Giscard ought to be attainable. It might well be a useful tactic for the Prime Minister to speak very toughly indeed to President Giscard in a plenary meeting of the European Council. The more allies Britain had the less likely a real split in the Community would be.

Reverting to the general question, the Prime Minister repeated that she was seeking an equitable adjustment. This meant something very close to a broad balance: £600 million would not be enough. She was not saying that she would not contribute to the Budget but she was not prepared to contribute on the present scale. If Britain's GNP were to rise then she would be prepared to see Britain's contribution rise. She was of course continuing to look at the courses of action open to her in the event that the outcome at Dublin was unsatisfactory. She was considering everything that she could do within the law: she was prepared to go within a hair's-breadth of what the law would permit.

Mr. Jenkins said that he recognised the need for a solution on a large scale. The Commission would produce a paper. It would not propose a single solution but would set out a number of approaches including one which would give Britain everything she asked and another which would produce two-thirds of her requirement. (The Prime Minister interjected that two-thirds would not be enough.) He did not think it would be possible to produce a complete solution that would operate within a few months. Moreover, there were conflicting claims on the Budget. Mr. Franklin pointed out that the members of the Community had all accepted the existence of a problem: having done so it was difficult to see why they were unwilling to accept the scale of the problem. Mr. Jenkins said that it was important to look at the problem through the eyes of other members. They were conscious that Britain, as a result of her energy resources, was moving into an ever stronger bargaining position and found it difficult to accept her claims to be poverty-stricken.

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/ Mr. Jenkins added

Mr. Jenkins added that a solution which tackled the receipts as well as the contribution side of the problem might run into difficulties if the 1% VAT ceiling were rigidly observed. The Prime Minister said that she intended to see the ceiling was observed. Mr. Jenkins said that it was inevitable that the 1% VAT ceiling should be breached at some stage. The Prime Minister said that she was determined to use the 1% ceiling to force a reform of the CAP. Mr. Franklin pointed out that HMG did not wish to spend their way out of the Budget problem. We wanted a cash payment within the current Budget.

Commissioner Gundelach

Mr. Jenkins said that Mr. Gundelach had incurred criticism in Denmark as a result of not pressing for interim measures on pout fishing. He had taken a very courageous stand on this issue. He was an influence for good within the Commission. It was not clear that he had spoken as had been reported on the question of the European Court's impending judgement on the UK's fish conservation measures.

Telematique

Mr. Jenkins said he attached great importance to the formulation of a Community approach to the development of micro-electronics technology. The EEC represented 30% of the market at present. There should be a common purchasing policy. The Prime Minister took note.

BBC External Services

Mr. Jenkins expressed concern about reports that the BBC French language services were likely to be curtailed. He was not worried about broadcasts to France as such but he thought the consequences of a reduction in services to Francophone Africa would be serious. In the absence of the BBC, the listeners in that region would have no programmes other than French national programmes to which to listen.

The meeting ended at 1320.

23 October 1979

MR ALEXANDER ✓

MR RYLANDS

MR TAYLOR

DETECTIVES

FRONT DOOR

MR JAMES

The following will arrive at
11.15 for a photocall at 11.30
with the Prime Minister and Mr Roy Jenkins:

COI	-	P Teasell
BBC	-	J Taylor G Poole
Visnews	-	L Walker T Cox
Westminster Press	-	A Wilson
Keystone	-	C Ball

P Ewing

22 October 1979

See Mr Franklin



From the Minister

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

(2)

Ronnie Penrice

This was delivered after
Mr Jenkins had left!

ms

19 October 1979

Penrice
- 22/14

[Handwritten signature]

PRIME MINISTER

!!

I would like to bring to your attention a number of matters in connection with your forthcoming meeting with Roy Jenkins.

I am told by Commissioner Gundelach that Roy Jenkins has been briefed to protest to you about the continuation by the British Government of the Pout Box that prevents the Danish fishing industry from fishing for pout in our waters. The reason for the pout box is that the Danish industrial fishery not only extracted the pout, which is not a fish that people eat, but also along with it young fish of edible species, particularly haddock and whiting. Were these allowed to grow, they would be much more valuable and would help make good the reduction in our fishermen's catches caused by depletion of edible white fish stocks. The British fishing industry therefore consider the maintenance of control on the pout fishery to be of great importance in our conservation policy.

It is the Danes who have failed to provide important scientific information. We have expressed our willingness to sit down with them to exchange all scientific information and to ascertain if there is any way in which the pout can be extracted without damage to other species.

3 It is, in my view, a scandal within Denmark that the Commissioner openly criticised us and went so far as to state that if the Commission lost the Court action against us he would resign as Commissioner.

With regard to your discussions on the CAP, there is little doubt in my mind that the Commission's thinking and the thinking of those Member States who benefit from the CAP is to enter a phase where they avoid the discipline of hitting the budget ceiling by turning to raising money by means of levies.

/For example, if you ...



22 OCT 1979



For example, if you place a 5% levy on milk and put up the intervention price of milk by 5% they will argue that this is a price freeze, but of course the effect is substantial additional income to the Commission to be spent in other ways.

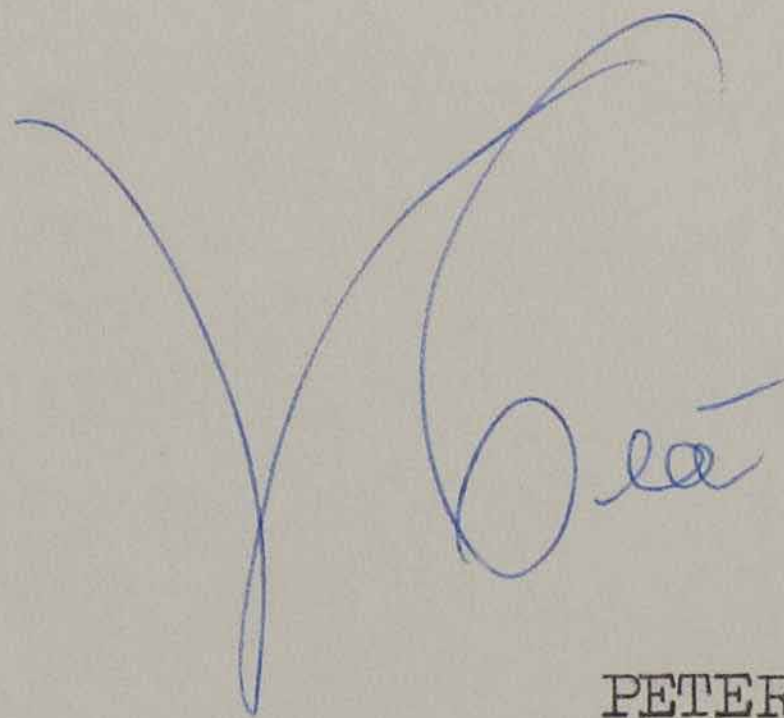
I am sending you an in-depth paper^{*} that was the basis of detailed discussions in my Department on the CAP and I must warn you that it is depressing as far as the consequences of price freezes and their effect upon diminishing surpluses are concerned.

Firstly there is the fact that the immediate reaction of a price freeze is to try and increase production, both by improving yields and taking on additional livestock, but even after this has proved to be ineffective, national aids come to the rescue of the farmers concerned for all the political purposes connected with small farmers, and I am absolutely certain that the majority of Member States, if not all of them, would, confronted with a price freeze, support their farmers in other ways. It is doubtless one of the explanations why the French are increasing their already vast agricultural budget by 15% in real terms in 1980.

I think, therefore, we have also to consider other methods of reducing the surpluses and although there is no single attractive method, such is the dimension of the problem that I think we must be prepared to look at other radical changes.

... I hope you will press Mr Jenkins very strongly upon the actions of the French with regard to sheepmeat and as yet the total inactivity of the Commission, including Roy Jenkins, in seeing that the law is respected. I attach to this minute marked paragraphs of the Court judgment which, if you have time to glance at, will show you how total is the rejection of the French position.

I hope you will say to Mr Jenkins that an announcement by the French that they will lift the ban some time in November is not good enough, because the lifting of the import ban towards the end of the year generally happens when French prices strengthen, and that he must obtain from them a clear confirmation that they will never again re-impose the ban or the levies that are placed upon our exports.



PETER WALKER

* to follow.

● COMMISSION v. FRANCE.

organisation of the market for sheepmeat, the Court must point out, as it already stressed in its judgments of 2 December 1974 (Case 48/74, Charmasson, Casebook p.1383) and of 29 March 1979, quoted above, that after the expiry of the transitional period of the EEC Treaty and, as regards the new Member States, the expiry of the transitional periods specifically laid down by the Act of Accession, the operation of a national market organisation could no longer constitute an obstacle to the full effect of the provisions of the Treaty relating to the elimination of restrictions on intra-Community trade, the requirements of the markets concerned being henceforth taken in hand by the Community institutions. The expiry of the transitional periods means, therefore, that the subjects and spheres explicitly attributed to the Community come under the jurisdiction of the Community, so that, while it is still necessary to have recourse to special measures, these will no longer be able to be decided on unilaterally by the Member States concerned, but must be adopted within the framework of the Community order, intended to guarantee that the general interest of the Community is safeguarded.

8. It is accordingly up to the competent institutions, and to them alone, to take, within the appropriate periods, the necessary measures for finding, within a Community framework, an overall solution to the problem of the sheepmeat market and to the special difficulties which arise in this connection in certain regions. The fact that this work has not yet been finalised does not, however, constitute an

adequate reason for a Member State to maintain a national market organisation comprising characteristics incompatible with the requirements of the Treaty relating to the free movement of goods, such as restrictions on imports and the levying of dues on imported products, under whatever designation.

9. The French Republic could not justify the existence of such a system by the consideration that, for its part, the UK would have maintained a national market organisation for the same sector. If the French Republic felt that this system contained aspects incompatible with Community law, it would have the possibility to act, either within the Council or via the Commission, or else finally by way of judicial remedies with a view to having these incompatibilities eliminated. In no case could a Member State take upon itself the authority to adopt, on a unilateral basis, adjustment or protection measures aimed at obviating any disregard by another Member State of the rules of the Treaty.
10. It should therefore be concluded that the national market organisation for sheepmeat maintained by the French authorities is incompatible with the Treaty in that it involves the determination of a threshold price protected by a system for the prohibition of imports and the levying of a charge on sheepmeat imports from another Member State. It should be pointed out that this finding does not prevent the French

authorities adopting, in favour of the sector concerned and pending the establishment of a common organisation of the market, any aid measure whose characteristics were compatible with the provisions of the Treaty.

11. It follows from this that by continuing to apply its national restrictive system to sheepmeat imports from the UK after 1 January 1978, the French Republic failed to fulfil the obligations binding upon it under Arts.12 and 30 of the EEC Treaty.

As regards costs

12. Under the terms of Art.69(2) of the Rules of Procedure, any party losing its case is ordered to pay costs. As the defending party has lost the case on the basis of the grounds it pleaded, it is necessary that it should be ordered to pay costs.

For these reasons,

THE COURT

declares and lays down

- 1) By continuing to apply, after 1 January 1978, its restrictive system to imports of sheepmeat from the United Kingdom, the French Republic has failed to

fulfil the obligations binding it pursuant to
Articles 12 and 30 of the EEC Treaty..

2) The defendent is made liable to pay costs.

KUTSCHER

MACKENZIE STUART

PESCATORE

SØRENSEN

O'KEEFFE

BOSCO

TOUFFAIT

Thus pronounced at a public hearing in Luxembourg,
25 September 1979.

The President

H. KUTSCHER

The Registrar

A. VAN HOUTTE

CALL ON THE PRIME MINISTER BY THE PRESIDENT OF THE EUROPEAN
COMMISSION: 22 OCTOBER

POINTS TO MAKE

(A) COMMUNITY BUDGET

1. British political expectation requires decision in Dublin (as agreed in Strasbourg). So far timetable has been adhered to. Grateful to Commission officials for their quick work. Vital that paper on solutions available in first week November. After that up to us to keep up pressure, though continuing support from the Commission will help.
2. Aware of dangers pointed out by Mr Jenkins and others that early appearance of paper will give others longer to attack it. But greater danger that they argue inadequate time to consider, therefore no decision possible. There must be adequate preparation of discussion in European Council so that points for decision are clearly set out: COREPER should tackle this immediately paper appears. Within first week November right timing for Commission paper.
3. Are Commission likely to produce single solution, or a range? Latter would give us greater scope in negotiation. Single inadequate solution would be worst of all worlds.
4. Commission solutions must be adequate to our needs. Vital to us that account should be taken of our low level of receipts. Recognise strong feeling of some of our partners about this, but anything relating to gross contribution only would be unacceptable.
5. Italian demands have created a further complication. Extra-budgetary costs of CAP hit us too, but hard to find generally agreed quantification or solution. What are Commission views? We have tried to channel Italian demands into sensible CAP reform and they have moved in this direction. They are insisting on a gesture in parallel with a UK budgetary solution, we hope that this will be towards control of CAP expenditure.
6. 1% Ceiling: very strong case for keeping Community expenditure down by retaining the present 1% ceiling on the VAT tranche of our own resources. FRG and France share this view. Ceiling is not an automatic solution to our problem as some have suggested, but vital

/weapon

weapon in our battle to stop the growth of spending on the CAP, which is root of present budgetary imbalance.

Mechanism

7. Mechanism need not be permanent in the sense of lasting forever. Excessive gross contribution should gradually correct itself as our trade within the Community continues to increase and our economic policies increase investment and exports in relation to consumption and imports. Cutting the agricultural surpluses and increasing expenditure on energy, regional and industrial policies should gradually improve our position on the receipt side. But the solution must last as long as the problem. The Community must not have to repeat this autumn's debate in three or four years' time. Temporary - e.g. Article 131 type - solutions will not do.

8. The British Government is very open to suggestions about how the corrective mechanism should work, as long as it produces the desired result. UKREP have been in touch with the Commission to give them some possible ideas. The main possibilities seem to be:-

- (a) a new mechanism which would set a direct limit on the UK's net contribution;
- (b) a new mechanism designed to bring UK receipts per head in line with the Community average; or
- (c) to build on the existing mechanism which would require important changes to it:
 - (i) as far as the qualifying criteria are concerned;
 - (ii) to enable it to remedy the whole rather than only part of our excess gross contribution;
 - (iii) to add to it a provision to deal with inadequate receipts e.g. to bring our share of receipts into line with our share of Community GNP or to bring our receipts per head up to, say, 75% of the Community average.

/(B) FISH

(B) FISH

9. Mr Walker has had useful bilaterals with all Member States with fishing interests. Most Fisheries Ministers anxious to make progress at next Fisheries Council (29 October). Hope Fish Council will launch new round of constructive discussions. No need for European Council to discuss fish.

(C) CAP REFORM

10. CAP expenditure control will be the key issue for Community in 1980. UK does not seek to destroy CAP but improve it. How can we best use the spur of one per cent ceiling to this effect? Essential aim is to cut surpluses and costs. What is Commission strategy for this?

11. Price control remains essential though more radical measures likely to be needed as well. Very much hope Commission will propose a freeze on milk support prices. Milk products clearly priority area. Surplus disposal in this sector accounts for 30% of the entire EEC budget. We think that if Commission intend to propose combination of price rise and other measures, this is a bad negotiating posture. It will enable States to bargain for higher rises in return for accepting other measures.

12. Understand Commission is thinking of increasing levy on milk producers. Is it not possible to introduce a system which will reduce prices to the consumer? If there has to be a temporary levy it must apply to all farmers equally. Exempting small farmers hits UK hard and aggravates our net budget contributions.

(D) SHEEPMEAT

13. French failure to implement European Court decision extremely serious. Could lead to pressure within the UK to defy similar court judgements. Important that Commission, with support of other Member States, acts decisively. What will Commission do about it?

(E) ENERGY (IF RAISED)

14. General

We are determined to make a constructive contribution to the development of Community's energy policy. We already do more than we are sometimes given credit for on oil, and we are working for a

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much more effective Community policy on coal.

Oil Exports

We expect companies to export North Sea crude only to Community and IEA partners (and Finland, given the existing pattern of trade). At present, about half crude production is exported and more than half of that goes to Community countries. We have agreed to a net export target of 5 million tonnes in 1985, thus providing the flexibility needed for the Community to meet the Strasbourg and Tokyo oil imports targets (restricting 1980/85 imports to the 1978 level).

Prices

North Sea crude is high quality and therefore at the upper end of the world market spectrum. But we follow, and do not lead. Preferential pricing is not a practical possibility. Prices for Community buyers are the same as for UK buyers.

(F) EUROPEAN MONETARY SYSTEM (IF RAISED)

15. The European Monetary System is a very valuable part of the Community's defence against world monetary instability. The British Government support the system and already have many links with it. Recognise important contribution of Mr Jenkins to establishment of the System.

16. Have not yet taken a decision about entry into the exchange rate mechanism. The present fluctuation in the value of sterling, which is determined by our oil reserves rather than by our economic performance, is a problem. British Government's objective to join the EMS when conditions are sufficiently stable.

(G) EUROPEAN MONETARY FUND (IF RAISED)

17. We are taking active part in discussions on the European Monetary Fund and we look forward to it being established on schedule two years after the start of the EMS. The question of the siting of the Fund would need careful consideration. London would be a possibility.

/(H)

(H) EUROPEAN MONETARY UNION (IF RAISED)

18. EMU is a long way off, but it is a goal that the Community can only aim for by making progress towards a real economic convergence. This links with our stance over the UK's budgetary contribution.

(I) CONSUMER AFFAIRS (IF RAISED)

19. UK in favour of effective Community consumer affairs programme. Some Commission current proposals seem to us of doubtful value. But we continue to be ready to discuss them in a positive spirit. We welcome aspects of Commission's net "second" Consumer Programme and we will suggest to Commission further consumer fields in which we would like EEC action.

(J) REPORT OF THE THREE WISE MEN (IF RAISED)

20. Understand report contains modest practical proposals. Hope to reach a political consensus in favour of some straightforward procedural reforms. No place for change in the present inter-institutional balance. Has Mr Jenkins any views at this stage? European Council should refer to appropriate Community bodies for detailed study, with aim of taking decisions at next meeting in March.

(K) COMMISSION REVIEW BODY (SPIERENBURG) (IF RAISED)

21. Still studying recent Spierenburg Report. Reserve comment on individual recommendations, but initial welcome to fresh and imaginative approach. What are Mr Jenkins' plans?

(L) EEC COMMISSION ACTION ON UK FILM AIDS (IF RAISED)

22. Commission action against the UK is unnecessary and legalistic. Will not produce a common market. US industry will be the only beneficiary of any reduction in state aids to economically unimportant film industries. Ready to discuss with the Commission ways of strengthening film industries in Member States against US domination.

/(M)

(M) "TELEMATIQUE" (IF RAISED)

23. ("Telematique" is shorthand for a Community role in promoting the use of micro-electronics in European industry.)
The Prime Minister need do no more than hear out Mr Jenkins and then suggest that in this fast moving area, the Commission needs to achieve positive results relatively quickly if it is to be credible. Its proposals should, therefore, be tailored to both political and industrial practicalities and the resources available. Officials see merit in some Commission proposals - the establishment of common functional specifications for digital networks, a data network pilot programme, education and training. Others may not be realistic in the short-term.

/ESSENTIAL FACTS

ESSENTIAL FACTS

(A) COMMUNITY BUDGET/CONVERGENCE

1. Commission Reference Paper has confirmed gravity of our position: estimated net contribution of 1814 mEUA (£1125m) in 1980 (1552 mEUA with MCAs attributed to importers). The extra material produced subsequently by the Commission at the request of Member States contains points useful to our case: e.g. substantial increase of structural spending (i.e. Regional Development, Social Fund, etc.) would make little difference to our position as major net contributor; over last ten years upward trend of our imports from the rest of the Community more marked than that of any other Member State (11 percentage point reduction in our imports from outside the Community).
2. Discussion of Reference Paper completed at 15 October Finance Council. Reasonably satisfactory outcome: qualified support for our case from FRG and Belgium, though clear they do not envisage relief on the scale we are asking. Almost completely negative position of French: most they contemplate is temporary extension of transitional arrangements under Treaty of Accession.
3. Commission officials began working on solutions in September. Commission meet on afternoon of 17 October (not 24 as originally planned) for first substantive discussion (there was a preliminary exchange of views at their informal country house weekend 6/7 October). Paper on solutions expected to be finalised on 29 October and distributed first week November.
4. Already evidence of strong opposition from Ortoli Cabinet to possible corrective mechanisms: attacked first draft for failing to take account of political difficulties in recommended solutions or of Community practice and philosophy (i.e. inviolability of own resources, no such thing as "national" contributions - see defensive points above).
5. Mr Jenkins' own role has been largely neutral. His principal concern is not to be seen to be biased in our favour. As a result he has been reluctant to use his position against our opponents in the Commission. But he has successfully kept to the June European Council timetable so far, and the Reference Paper provided useful material for our case. There will, however, be considerable difficulties in producing a Commission recommendation on solutions adequate to our requirements.

(B) FISH

6. A Fisheries Council scheduled for 29 October. The majority of Member States appreciate that concessions will be needed if a settlement of the CFP is to be achieved as Mr Walker reported to the Prime Minister on 1 October. United Kingdom policy to be considered collectively before Council.

7. The French have not co-operated in bilateral consultations using as an excuse the conviction in September of two French trawlers for breaking United Kingdom national measures on net sizes (a third arrest has now been made). Additionally the effects of the extension on 1 October under our national legislation of the prohibited area in North Sea for the Norway pout industrial fishery may result in the Danes raising fisheries to answer political pressures at home. Mr Walker ready to discuss these difficulties bilaterally.

8. There is a danger that substantive European Council discussions on fish might cut across our budget objectives. Jenkins likely to agree. In September Prime Minister stated forcibly to Tugendhat her view on link.

(C) CAP REFORM

9. The 1979 EEC budget provides for expenditure of about £9 billion, of which CAP accounts for £6.5 billion. A supplementary budget of £550 million on account of CAP is to be presented shortly. Unless expenditure on CAP is sharply reduced, total EEC expenditure is likely to reach the limit of the Community's own resources in 1981, or even earlier.

10. The Commission will be making proposals for changes within the next few months. These will concentrate on the milk sector. Over 15% of milk production is surplus, and the disposal costs account for some 40% of CAP expenditure and 30% of the whole EEC budget.

11. One element, possibly the main one, in the Commission's proposals is likely to be an increased "co-responsibility levy" on milk producers. This could be one way, although not the most direct, of reducing producers' returns and thus restraining production. But its main attraction to the Commission and some Member States is that it produces new revenue to set against CAP expenditure. Moreover Commission Gundelach has already said that, unlike last year, he will not propose a freeze on support prices for milk. But if the levy were offset by a price increase, there would be no cut in producers' returns and the levy would in effect fall on the consumer. Far from improving the CAP, this would actually worsen the surplus by reducing consumption. Furthermore, there would be proposals to exempt small farmers from the levy, so that it would bear more heavily on the UK than on other Member States.

12. The Commission's proposals could also contain a suggestion for a production quantum, ie. an annual global ceiling (set at the level of EEC consumption plus a small margin). Production beyond this ceiling would either not be eligible for intervention or eligible only at a much reduced rate.

/(C)

(D) SHEEPMEAT

13. On 25 September, the European Court of Justice ruled that long-established French controls against the import of sheepmeat from the UK were illegal and must be lifted. The judgement does not prevent the French adopting other measures to support producers provided they are compatible with the Treaty. To press French to declare themselves, Mr Walker wrote to M. Mehaignerie on 8 October. He has not yet received a reply. Mr Walker raised the matter at the Agricultural Council on 16 October. After M. Mehaignerie could only offer reply after "a reasonable delay", we received strong support from Commission and other Member States for lifting of controls. A special meeting of the Agricultural Council will be held on 29/30 October to discuss sheepmeat regime, but it is clear French will get no support unless they have complied with Court ruling before then. On 14 October, the French Government refused to grant an import licence for a trial consignment of lamb. No reasons were given. The National Farmers' Union are still considering whether to arrange for a case to be brought before the French Courts.

14. The Commission proposed a light market-orientated common regime in March 1979 which is acceptable in principle to most States, but the French have been pressing for a 'heavy' regime with intervention and annual price-fixing. The Council of Agricultural Ministers resolved in June to try to achieve a scheme by 31 October, but this target is most unlikely to be met.

(E) ENERGY

15. There are indications that our Community partners see a link between our attitude over energy policy and their response to our demands for reform of the budget. Reports from the Embassy in Bonn of the recent discussion in Bonn between President Giscard and Chancellor Schmidt suggest that the subject of the price of North Sea oil for example is likely to come up at Dublin. The Germans have expressed dissatisfaction that North Sea oil should be at the top end of the OPEC range.

16. There is little room for material concessions over energy policy and indeed we do not wish to pay for a just solution over the budget. There may, however, be scope for better presentation of what we are already doing.

(F) EMS

17. The review of certain features of the EMS, due to take place in September, was terminated ahead of schedule by the Finance Ministers on 17 September, because it was thought to be unsettling the foreign exchange markets.

18. On 23 September, there was a realignment of EMS currencies. The Deutschmark was revalued by 2%, and the Danish kroner devalued by 3%. This showed that parity changes can take place reasonably

/promptly

promptly in response to market pressure. Some members of the EMS spent considerable sums out of their reserves supporting their currencies in the week before the realignment. And inevitably agreement was not easy and required compromise.

19. The procedure on 23 September did not provide for the degree of consultation of UK, as a non-participant in the exchange rate arrangements, laid down in the EMS Resolution of the European Council. Some other Member States felt this too. We have said that the procedures need to be reviewed and improved.

(G) AND (H) EUROPEAN MONETARY FUND AND MONETARY UNION

20. M. Werner now Prime Minister of Luxembourg, chaired a Committee in 1970 which reported to the Council on the attainment of economic and monetary union in the Community by stages. The goal was full EMU by 1980. Following the oil price rise and the recession of the mid-1970s, the timetable was abandoned, but the objective remains.

21. It was recently learnt that the President of the Commission and M. Werner have been discussing EMU and the European Monetary Fund. There is no necessary connection between a European Monetary Fund and economic and monetary union. A Fund with wide-ranging powers might have some of the functions of a central bank for the Community, but a Fund with limited powers might do no more than administer the existing Community credit facilities. Officials are examining the different possibilities which will be put to the Council of Ministers for a decision at a later stage.

(I) CONSUMER AFFAIRS

22. Mrs Oppenheim at a meeting with the Commission on 2 October criticised EEC's consumer affairs programme. Press described this as UK broadside against programme and Commissioner Burke said publicly that it constituted a fundamental attack on the whole policy which the Community had been developing for the past six years. Mrs Oppenheim will see Mrs Quinn, the Irish Minister responsible for consumer affairs on 25 October and will stress the positive aspects of UK policies on EEC consumer affairs.

(J) THREE WISE MEN

23. Report due to be given to Member States and to the Heads of the Community institutions, and to be published, at the end of October. Although we have not yet seen a copy of the draft report, we understand it will concentrate on practical measures which can be implemented without Treaty amendment. We do not want the European Council to spend much time on the report: adequate time is essential for the budget.

(K) COMMISSION REVIEW BODY (SPIERENBURG)

24. Commission Review Body chaired by Ambassador Spierenburg (Dutch) reported to the Commission on 24 September. Principal recommendations were: one Commissioner per Member State following

/enlargement

enlargement; reduction number of portfolios and of Directorates-General; reduction power of Cabinets; series of staff changes aimed at improving management flexibility, career structure improvements. UK officials now studying proposals and will submit recommendations to Ministers. Premature to give definitive comment, e.g. on size of Commission. Next steps rest with Commission. Successful implementation will depend on how vigorously Jenkins himself decides to press for reform during remaining 15 months of this Commission.

25. At press conference on 8 October Jenkins said Commission broadly endorsed the report and will now consider how to implement the detailed management proposals. The constitutional reforms (size and appointment of Commission) would need examination in context of Three Wise Men report.

(L) UK FILM AIDS

26. The UK (like other Member States) maintains measures to preserve national film industry against US penetration. Commission has just taken Article 169 proceedings under the Treaty of Rome against the UK (and France, FRG, Denmark and Italy) alleging that certain provisions of UK scheme violate freedom of movement of labour provisions in the Treaty. Our legal defence is not strong.

(M) "TELEMATIQUE"

27. Mr Roy Jenkins and Mr Davignon are keen to rouse Europe to the challenge of the information era and the development of microelectronics technology. Following intra-Commission discussions and after canvassing the views of leading electronics companies in Europe, the Commission have recently drawn up a tentative outline for a Community strategy.

Ref: A0463

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PRIME MINISTER

Run-Up to the European Council

You are seeing Mr. Roy Jenkins on Monday, 22nd October. In addition to the other briefing being provided I think you may find it helpful to have this note on the key stages in the run-up to the November European Council. It will also be relevant to the OD discussion on 24th October when the various negotiating cards are to be considered. The sequence will be as follows.

1. The Commission Paper

The Commission expect to finalise this by the end of October. All the signs are that it will set out a range of options and include corrective mechanisms which would be acceptable to us as well as other less satisfactory possibilities. But the Commission may well not come down in favour of a particular solution; we would not want them to unless it is one we could accept in which case this would of course be very helpful. You will want to probe Mr. Jenkins on this.

2. November Finance and Foreign Affairs Councils

The Commission's report is likely to be discussed by both the Finance Council on 19th November and the Foreign Affairs Council probably on 20th November. If, as we hope, the Commission's paper is reasonably helpful to our case it is bound to be exposed to attack at these meetings by the financial experts and others in the member States who are likely to see their own interests suffering if we get what we want. We should therefore see these as damage-limitation operations, since a decision of the magnitude we are seeking can only be taken at Head of Government level. We cannot however evade the process of discussion in the Finance and Foreign Affairs Councils without incurring the risk of postponement at Dublin on the ground that the issue had not been sufficiently prepared for Heads of Government. The other member States will be staking out positions: and we must stick firmly to our stated requirements. We must however ensure that the

SECRET

question is put to the European Council in as clear and helpful a form as possible. We shall therefore need to get an instruction to COREPER to prepare a suitable paper for Heads of Government which simply sets out the issues which they will be called upon to decide. If, contrary to our present expectations, the Commission's report does not even include options which would produce the result we want, we shall of course be ready to table proposals of our own.

3. Bilaterals

Although we may not see much real movement before Dublin, the various bilateral contacts at top Ministerial level will be important in getting over the Government's determination to see this basic inequity put right. Schmidt recognises that something has to be done although he naturally wants to limit the financial burden on Germany. He will probably go along with whatever consensus emerges: but he will not fight our battles for us and he will not be ready to have a major disagreement with Giscard. It will however be essential to press him as far as possible during the Bonn bilateral on 31st October.

The Anglo-French Summit on 19th-20th November will have a special significance, not only because Giscard is likely to be the main person who has to be won over but because it comes closest in time to the Dublin meeting. Although French officials are taking a very tough line indeed Giscard has not shown his hand and it will be a matter of nice judgment nearer the time whether it will be right to give him any hint of what we would regard as "acceptable". There is little if anything in the Community field which we can, or would want to, offer him to secure his co-operation but there are possibilities of constructive discussion in other fields of interest to him (e.g. East/West and nuclear) which might improve the atmosphere. I will send you a separate note about the nuclear aspect.

You will not be seeing Mr. Lynch again before Dublin but we ought to arrange some direct political contact if only about the handling of the meeting (see below).

M. Wähl, of President Giscard's office, told me yesterday that we should not assume that the report will contain options. He says that there is a good deal of misapprehension within the Commission, caused in part by what some regard as Mr Jenkins' unnecessarily pro-British approach.

Do you wish to pursue this idea? If you do, we will get further advice.

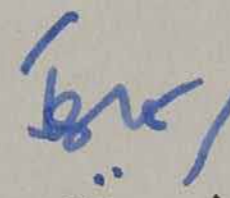
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4. The European Council

While we shall have taken every opportunity to get the political message across at the highest level in advance of Dublin, it seems inevitable that the real negotiation on figures will take place there. It will therefore be essential to ensure that the first day at Dublin is devoted to this topic so that the usual overnight meeting of officials can be given clear instructions.

It also follows that we need to keep our demand for "broad balance" formally on the table up to the opening of the Dublin meeting. Before then, however, Ministers will need to have considered what might be an acceptable outcome. In his paper (OD(79) 33) the Foreign and Commonwealth Secretary recommends that this should be done in a small informal group of Ministers without any written record: this meeting should probably take place after the Schmidt visit and before Giscard.

Ministers will be considering papers on ways in which we can exert pressure within the Community to secure our budget objectives. It seems unlikely that there is scope for any direct trade-off ("We will do this if you will do that"): in any case we should not have to make concessions to correct a demonstrable unfairness. On the other hand our stance on other current issues will have an influence on the attitude of other member States towards our requirements. We shall have to monitor this carefully.


(John Hunt)

19th October 1979

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The Foreign Council

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End P. 11

MR. ALEXANDER

Peter Walker has asked Agriculture to stiffen paragraph 12 of the brief for Mr. Jenkins's visit. Their new version (yet to be cleared with their Minister and with the Foreign Office) would read:

"Understand Commission is thinking of increasing levy on milk producers. Not a sensible way of dealing with the surplus. A reduction in the intervention price is much better: it has exactly the same effect on the returns of the producer but also cuts the price to the consumer and so increases consumption. A levy would in practice put extra funds into the Agricultural budget and so evade the VAT ceiling."

MAP

19 October 1979

CONFIDENTIAL

①

Ref. A0465

MR. ALEXANDER

Prime Minister: You already have the brief for Mr Jenkins' call. You will wish to see the additional brief from the FCO + the amendment from the NAFF to para 12 of the original brief. *Print*

Prime Minister's Meeting with Mr. Roy Jenkins

You will have seen UKREP telegram 5494.

2. The FCO brief covers most of the points on the budget issue but:-
 - (a) The Prime Minister should tell Mr. Jenkins that "broad balance" means something very close to it. It is too soon to show flexibility. Mr. Jenkins must understand we need more than a correction for our excess contribution i. e. something which bites on our receipts.
 - (b) On "contingency plans" the Prime Minister will of course have seen the Foreign and Commonwealth Secretary's paper for OD. But again I do not think it would be wise to show our hand to Mr. Jenkins. For the moment, we are working for an agreed solution. However there is no doubt that the Community will face a crisis if no agreement is reached in Dublin.
3. On the 1 per cent ceiling and the problem of accommodating our refund within it, FCO have sent you additional briefing. On the pressure from the European Parliament to have more control over the budget, we share Mr. Jenkins' anxieties. The European Parliament should stay within its powers and not stir up a conflict with the Council.

Jeh

JOHN HUNT

19th October, 1979

Mr. ALEXANDER
Room 1000
1000

19 OCT 1979

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JAMES EARL RAY



Foreign and Commonwealth Office

London SW1A 2AH

19 October 1979

Dear Michael,

Call on the Prime Minister by the President of
the Commission

In my letter of 17 October I undertook to send you, if necessary, additional briefing for the Prime Minister's meeting with Mr Jenkins on 22 October.

We have now heard in confidence (though this should not be revealed to Mr Jenkins) that the Commission may launch a proposal for raising the 1% VAT limit before the European Council in Dublin. This would be contrary to our interests, in that it might enable others to plead that the issues of the British budget contribution and the 1% limit have to be settled at the same time, as well as being contrary to our policy of not exceeding the 1% VAT limit. Mr Jenkins may well argue that if the UK is to get a refund of the size we want out of the 1981 budget, that will of itself drive the Community through the ceiling. I enclose a suggested line for the Prime Minister to take on this subject.

Could you also note that there is an omission, for which I apologise, in paragraph 9 of the brief enclosed with my earlier letter. The words "except France" should be added at the end of the first sentence.


I am sending copies of this letter to Tony Battishill (Treasury), Garth Walters (MAFF), Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry), Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office)

Yours *WZ*

Paul

Paul Lever
Private Secretary

M O'D B Alexander Esq
10 Downing Street


1% VAT Limit

The Prime Minister might enquire about the Commission's intentions in regard to the 1% VAT limit. If Mr Jenkins indicates that the Commission are thinking of making proposals before Dublin to raise the 1% VAT limit, we recommend that the Prime Minister take the following line

Line to take

There is a growing feeling within the Community that it must not break through the 1% VAT ceiling. We agree strongly with Chancellor Schmidt that we should use the ceiling to compel the Community to tackle the problem of the agricultural surpluses. He seems now to have persuaded the Italian Prime Minister as well as President Giscard. If the right decisions are taken at the European Council in Dublin along the lines of the Italian proposals and in the price-fixing next spring, we ought at last to begin to get some reduction in the cost of the c.a.p. in 1981. If the Community were to raise the ceiling, the political pressure to achieve this would be much diminished.

Furthermore, it would be very damaging to our chances of getting a decision on the British budget problem at Dublin if the Commission were to make proposals about the 1% VAT ceiling before that. This would make it easier for others to argue that the British budget problem and the 1% VAT issue have to be settled together. They may do so anyway, but the Commission certainly ought not to give them ammunition.

/If Mr Jenkins argues that we could not get a refund of the size we want out of the 1981 budget within the VAT ceiling/

Line to take

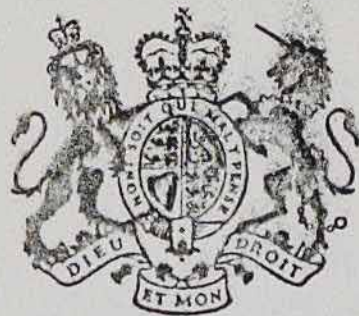
First of all, that does not seem to me to be certain. In any case, we are not making a real increase in expenditure.

Second, we must concentrate on getting agreement on our correcting mechanism at Dublin. We can, if necessary, argue about exactly where the money is to come from afterwards. I want, if possible, to try to avoid discussing this at Dublin. A Commission proposal before Dublin would be most unhelpful from this point of view.



19 OCT 1979

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10 DOWNING STREET

From the Private Secretary

18 October 1979

MEETING WITH THE
PRESIDENT OF THE COMMISSION

The Prime Minister has decided that the meeting with Mr. Roy Jenkins on Monday, 22 October should be tête-a-tête. She has also decided to do without a briefing meeting in advance of Mr. Jenkins' call.

I am sending copies of this letter to Tony Battishill (H.M. Treasury), George Walden (Foreign and Commonwealth Office) and Garth Waters (Ministry of Agriculture, Fisheries and Food).

M. O'D. B. ALEXANDER

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

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CALL ON THE PRIME MINISTER BY THE PRESIDENT OF THE EUROPEAN
COMMISSION: 22 OCTOBER

POINTS TO MAKE

(A) COMMUNITY BUDGET

1. British political expectation requires decision in Dublin (as agreed in Strasbourg). So far timetable has been adhered to. Grateful to Commission officials for their quick work. Vital that paper on solutions available in first week November. After that up to us to keep up pressure, though continuing support from the Commission will help.
2. Aware of dangers pointed out by Mr Jenkins and others that early appearance of paper will give others longer to attack it. But greater danger that they argue inadequate time to consider, therefore no decision possible. There must be adequate preparation of discussion in European Council so that points for decision are clearly set out: COREPER should tackle this immediately paper appears. Within first week November right timing for Commission paper.
3. Are Commission likely to produce single solution, or a range? Latter would give us greater scope in negotiation. Single inadequate solution would be worst of all worlds.
4. Commission solutions must be adequate to our needs. Vital to us that account should be taken of our low level of receipts. Recognise strong feeling of some of our partners about this, but anything relating to gross contribution only would be unacceptable.
5. Italian demands have created a further complication. Extra-budgetary costs of CAP hit us too, but hard to find generally agreed quantification or solution. What are Commission views? We have tried to channel Italian demands into sensible CAP reform and they have moved in this direction. They are insisting on a gesture in parallel with a UK budgetary solution, we hope that this will be towards control of CAP expenditure.
6. 1% Ceiling: very strong case for keeping Community expenditure down by retaining the present 1% ceiling on the VAT tranche of our own resources. FRG and France share this view. Ceiling is not an automatic solution to our problem as some have suggested, but vital

/weapon

weapon in our battle to stop the growth of spending on the CAP, which is root of present budgetary imbalance.

Mechanism

7. Mechanism need not be permanent in the sense of lasting forever. Excessive gross contribution should gradually correct itself as our trade within the Community continues to increase and our economic policies increase investment and exports in relation to consumption and imports. Cutting the agricultural surpluses and increasing expenditure on energy, regional and industrial policies should gradually improve our position on the receipt side. But the solution must last as long as the problem. The Community must not have to repeat this autumn's debate in three or four years' time. Temporary - e.g. Article 131 type - solutions will not do.

8. The British Government is very open to suggestions about how the corrective mechanism should work, as long as it produces the desired result. UKREP have been in touch with the Commission to give them some possible ideas. The main possibilities seem to be:-

(a) a new mechanism which would set a direct limit on the UK's net contribution;

(b) a new mechanism designed to bring UK receipts per head in line with the Community average; or

(c) to build on the existing mechanism which would require important changes to it:

(i) as far as the qualifying criteria are concerned;

(ii) to enable it to remedy the whole rather than only part of our excess gross contribution;

(iii) to add to it a provision to deal with inadequate receipts e.g. to bring our share of receipts into line with our share of Community GNP or to bring our receipts per head up to, say, 75% of the Community average.

/(B) FISH

(B) FISH

9. Mr Walker has had useful bilaterals with all Member States with fishing interests. Most Fisheries Ministers anxious to make progress at next Fisheries Council (29 October). Hope Fish Council will launch new round of constructive discussions. No need for European Council to discuss fish.

(C) CAP REFORM

10. CAP expenditure control will be the key issue for Community in 1980. UK does not seek to destroy CAP but improve it. How can we best use the spur of one per cent ceiling to this effect? Essential aim is to cut surpluses and costs. What is Commission strategy for this?

11. Price control remains essential though more radical measures likely to be needed as well. Very much hope Commission will propose a freeze on milk support prices. Milk products clearly priority area. Surplus disposal in this sector accounts for 30% of the entire EEC budget. We think that if Commission intend to propose combination of price rise and other measures, this is a bad negotiating posture. It will enable States to bargain for higher rises in return for accepting other measures.

12. Understand Commission is thinking of increasing levy on milk producers. Is it not possible to introduce a system which will reduce prices to the consumer? If there has to be a temporary levy it must apply to all farmers equally. Exempting small farmers hits UK hard and aggravates our net budget contributions.

(D) SHEEPMEAT

13. French failure to implement European Court decision extremely serious. Could lead to pressure within the UK to defy similar court judgements. Important that Commission, with support of other Member States, acts decisively. What will Commission do about it?

(E) ENERGY (IF RAISED)

14. General

We are determined to make a constructive contribution to the development of Community's energy policy. We already do more than we are sometimes given credit for on oil, and we are working for a

much more effective Community policy on coal.

Oil Exports

We expect companies to export North Sea crude only to Community and IEA partners (and Finland, given the existing pattern of trade). At present, about half crude production is exported and more than half of that goes to Community countries. We have agreed to a net export target of 5 million tonnes in 1985, thus providing the flexibility needed for the Community to meet the Strasbourg and Tokyo oil imports targets (restricting 1980/85 imports to the 1978 level).

Prices

North Sea crude is high quality and therefore at the upper end of the world market spectrum. But we follow, and do not lead. Preferential pricing is not a practical possibility. Prices for Community buyers are the same as for UK buyers.

(F) EUROPEAN MONETARY SYSTEM (IF RAISED)

15. The European Monetary System is a very valuable part of the Community's defence against world monetary instability. The British Government support the system and already have many links with it. Recognise important contribution of Mr Jenkins to establishment of the System.

16. Have not yet taken a decision about entry into the exchange rate mechanism. The present fluctuation in the value of sterling, which is determined by our oil reserves rather than by our economic performance, is a problem. British Government's objective to join the EMS when conditions are sufficiently stable.

(G) EUROPEAN MONETARY FUND (IF RAISED)

17. We are taking active part in discussions on the European Monetary Fund and we look forward to it being established on schedule two years after the start of the EMS. The question of the siting of the Fund would need careful consideration. London would be a possibility.

/(H)

(H) EUROPEAN MONETARY UNION (IF RAISED)

18. EMU is a long way off, but it is a goal that the Community can only aim for by making progress towards a real economic convergence. This links with our stance over the UK's budgetary contribution.

(I) CONSUMER AFFAIRS (IF RAISED)

19. UK in favour of effective Community consumer affairs programme. Some Commission current proposals seem to us of doubtful value. But we continue to be ready to discuss them in a positive spirit. We welcome aspects of Commission's net "second" Consumer Programme and we will suggest to Commission further consumer fields in which we would like EEC action.

(J) REPORT OF THE THREE WISE MEN (IF RAISED)

20. Understand report contains modest practical proposals. Hope to reach a political consensus in favour of some straightforward procedural reforms. No place for change in the present inter-institutional balance. Has Mr Jenkins any views at this stage? European Council should refer to appropriate Community bodies for detailed study, with aim of taking decisions at next meeting in March.

(K) COMMISSION REVIEW BODY (SPIERENBURG) (IF RAISED)

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21. Still studying recent Spierenburg Report. Reserve comment on individual recommendations, but initial welcome to fresh and imaginative approach. What are Mr Jenkins' plans?

(L) EEC COMMISSION ACTION ON UK FILM AIDS (IF RAISED)

?
22. Commission action against the UK is unnecessary and legalistic. Will not produce a common market. US industry will be the only beneficiary of any reduction in state aids to economically unimportant film industries. Ready to discuss with the Commission ways of strengthening film industries in Member States against US domination.

/(M)

(M) "TELEMATIQUE" (IF RAISED)

23. ("Telematique" is shorthand for a Community role in promoting the use of micro-electronics in European industry.)

The Prime Minister need do no more than hear out Mr Jenkins and then suggest that in this fast moving area, the Commission needs to achieve positive results relatively quickly if it is to be credible. Its proposals should, therefore, be tailored to both political and industrial practicalities and the resources available. Officials see merit in some Commission proposals - the establishment of common functional specifications for digital networks, a data network pilot programme, education and training. Others may not be realistic in the short-term.

/ESSENTIAL FACTS

ESSENTIAL FACTS

(A) COMMUNITY BUDGET/CONVERGENCE

1. Commission Reference Paper has confirmed gravity of our position: estimated net contribution of 1814 mEUA (£1125m) in 1980 (1552 mEUA with MCAs attributed to importers). The extra material produced subsequently by the Commission at the request of Member States contains points useful to our case: e.g. substantial increase of structural spending (i.e. Regional Development, Social Fund, etc.) would make little difference to our position as major net contributor; over last ten years upward trend of our imports from the rest of the Community more marked than that of any other Member State (11 percentage point reduction in our imports from outside the Community).
2. Discussion of Reference Paper completed at 15 October Finance Council. Reasonably satisfactory outcome: qualified support for our case from FRG and Belgium, though clear they do not envisage relief on the scale we are asking. Almost completely negative position of French: most they contemplate is temporary extension of transitional arrangements under Treaty of Accession.
3. Commission officials began working on solutions in September. Commission meet on afternoon of 17 October (not 24 as originally planned) for first substantive discussion (there was a preliminary exchange of views at their informal country house weekend 6/7 October). Paper on solutions expected to be finalised on 29 October and distributed first week November.
4. Already evidence of strong opposition from Ortoli Cabinet to possible corrective mechanisms: attacked first draft for failing to take account of political difficulties in recommended solutions or of Community practice and philosophy (i.e. inviolability of own resources, no such thing as "national" contributions - see defensive points above).
5. Mr Jenkins' own role has been largely neutral. His principal concern is not to be seen to be biased in our favour. As a result he has been reluctant to use his position against our opponents in the Commission. But he has successfully kept to the June European Council timetable so far, and the Reference Paper provided useful material for our case. There will, however, be considerable difficulties in producing a Commission recommendation on solutions adequate to our requirements.

(B) FISH

6. A Fisheries Council scheduled for 29 October. The majority of Member States appreciate that concessions will be needed if a settlement of the CFP is to be achieved as Mr Walker reported to the Prime Minister on 1 October. United Kingdom policy to be considered collectively before Council.

/7.

7. The French have not co-operated in bilateral consultations using as an excuse the conviction in September of two French trawlers for breaking United Kingdom national measures on net sizes (a third arrest has now been made). Additionally the effects of the extension on 1 October under our national legislation of the prohibited area in North Sea for the Norway pout industrial fishery may result in the Danes raising fisheries to answer political pressures at home. Mr Walker ready to discuss these difficulties bilaterally.

8. There is a danger that substantive European Council discussions on fish might cut across our budget objectives. Jenkins likely to agree. In September Prime Minister stated forcibly to Tugendhat her view on link.

(C) CAP REFORM

9. The 1979 EEC budget provides for expenditure of about £9 billion, of which CAP accounts for £6.5 billion. A supplementary budget of £550 million on account of CAP is to be presented shortly. Unless expenditure on CAP is sharply reduced, total EEC expenditure is likely to reach the limit of the Community's own resources in 1981, or even earlier.

10. The Commission will be making proposals for changes within the next few months. These will concentrate on the milk sector. Over 15% of milk production is surplus, and the disposal costs account for some 40% of CAP expenditure and 30% of the whole EEC budget.

11. One element, possibly the main one, in the Commission's proposals is likely to be an increased "co-responsibility levy" on milk producers. This could be one way, although not the most direct, of reducing producers' returns and thus restraining production. But its main attraction to the Commission and some Member States is that it produces new revenue to set against CAP expenditure. Moreover Commission Gundelach has already said that, unlike last year, he will not propose a freeze on support prices for milk. But if the levy were offset by a price increase, there would be no cut in producers' returns and the levy would in effect fall on the consumer. Far from improving the CAP, this would actually worsen the surplus by reducing consumption. Furthermore, there would be proposals to exempt small farmers from the levy, so that it would bear more heavily on the UK than on other Member States.

12. The Commission's proposals could also contain a suggestion for a production quantum, ie. an annual global ceiling (set at the level of EEC consumption plus a small margin). Production beyond this ceiling would either not be eligible for intervention or eligible only at a much reduced rate.

/(C)

(D) SHEEPMEAT

13. On 25 September, the European Court of Justice ruled that long-established French controls against the import of sheepmeat from the UK were illegal and must be lifted. The judgement does not prevent the French adopting other measures to support producers provided they are compatible with the Treaty. To press French to declare themselves, Mr Walker wrote to M. Mehaignerie on 8 October. He has not yet received a reply. Mr Walker raised the matter at the Agricultural Council on 16 October. After M. Mehaignerie could only offer reply after "a reasonable delay", we received strong support from Commission and other Member States for lifting of controls. A special meeting of the Agricultural Council will be held on 29/30 October to discuss sheepmeat regime, but it is clear French will get no support unless they have complied with Court ruling before then. On 14 October, the French Government refused to grant an import licence for a trial consignment of lamb. No reasons were given. The National Farmers' Union are still considering whether to arrange for a case to be brought before the French Courts.

14. The Commission proposed a light market-orientated common regime in March 1979 which is acceptable in principle to most States, but the French have been pressing for a 'heavy' regime with intervention and annual price-fixing. The Council of Agricultural Ministers resolved in June to try to achieve a scheme by 31 October, but this target is most unlikely to be met.

(E) ENERGY

15. There are indications that our Community partners see a link between our attitude over energy policy and their response to our demands for reform of the budget. Reports from the Embassy in Bonn of the recent discussion in Bonn between President Giscard and Chancellor Schmidt suggest that the subject of the price of North Sea oil for example is likely to come up at Dublin. The Germans have expressed dissatisfaction that North Sea oil should be at the top end of the OPEC range.

16. There is little room for material concessions over energy policy and indeed we do not wish to pay for a just solution over the budget. There may, however, be scope for better presentation of what we are already doing.

(F) EMS

17. The review of certain features of the EMS, due to take place in September, was terminated ahead of schedule by the Finance Ministers on 17 September, because it was thought to be unsettling the foreign exchange markets.

18. On 23 September, there was a realignment of EMS currencies. The Deutschmark was revalued by 2%, and the Danish kroner devalued by 3%. This showed that parity changes can take place reasonably

/promptly

promptly in response to market pressure. Some members of the EMS spent considerable sums out of their reserves supporting their currencies in the week before the realignment. And inevitably agreement was not easy and required compromise.

19. The procedure on 23 September did not provide for the degree of consultation of UK, as a non-participant in the exchange rate arrangements, laid down in the EMS Resolution of the European Council. Some other Member States felt this too. We have said that the procedures need to be reviewed and improved.

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21. It was recently learnt that the President of the Commission and M. Werner have been discussing EMU and the European Monetary Fund. There is no necessary connection between a European Monetary Fund and economic and monetary union. A Fund with wide-ranging powers might have some of the functions of a central bank for the Community, but a Fund with limited powers might do no more than administer the existing Community credit facilities. Officials are examining the different possibilities which will be put to the Council of Ministers for a decision at a later stage.

(I) CONSUMER AFFAIRS

22. Mrs Oppenheim at a meeting with the Commission on 2 October criticised EEC's consumer affairs programme. Press described this as UK broadside against programme and Commissioner Burke said publicly that it constituted a fundamental attack on the whole policy which the Community had been developing for the past six years. Mrs Oppenheim will see Mrs Quinn, the Irish Minister responsible for consumer affairs on 25 October and will stress the positive aspects of UK policies on EEC consumer affairs.

(J) THREE WISE MEN

23. Report due to be given to Member States and to the Heads of the Community institutions, and to be published, at the end of October. Although we have not yet seen a copy of the draft report, we understand it will concentrate on practical measures which can be implemented without Treaty amendment. We do not want the European Council to spend much time on the report: adequate time is essential for the budget.

(K) COMMISSION REVIEW BODY (SPIERENBURG)

24. Commission Review Body chaired by Ambassador Spierenburg (Dutch) reported to the Commission on 24 September. Principal recommendations were: one Commissioner per Member State following

/enlargement

enlargement; reduction number of portfolios and of Directorates-General; reduction power of Cabinets; series of staff changes aimed at improving management flexibility, career structure improvements. UK officials now studying proposals and will submit recommendations to Ministers. Premature to give definitive comment, e.g. on size of Commission. Next steps rest with Commission. Successful implementation will depend on how vigorously Jenkins himself decides to press for reform during remaining 15 months of this Commission.

25. At press conference on 8 October Jenkins said Commission broadly endorsed the report and will now consider how to implement the detailed management proposals. The constitutional reforms (size and appointment of Commission) would need examination in context of Three Wise Men report.

(L) UK FILM AIDS

26. The UK (like other Member States) maintains measures to preserve national film industry against US penetration. Commission has just taken Article 169 proceedings under the Treaty of Rome against the UK (and France, FRG, Denmark and Italy) alleging that certain provisions of UK scheme violate freedom of movement of labour provisions in the Treaty. Our legal defence is not strong.

(M) "TELEMATIQUE"

27. Mr Roy Jenkins and Mr Davignon are keen to rouse Europe to the challenge of the information era and the development of microelectronics technology. Following intra-Commission discussions and after canvassing the views of leading electronics companies in Europe, the Commission have recently drawn up a tentative outline for a Community strategy.

PRIME MINISTER

Meeting with Mr. Roy Jenkins

The President of the Commission will be calling on you at 1130 a.m. on Monday 22 October. The last time you saw him, in May, you were accompanied only by Mr. Franklin and Bryan Cartledge. When you saw Mr. Tugendhat last month you had two Ministerial colleagues with you. My own view would be that it would be best if your meeting with Mr. Jenkins were to be in the same format as the meeting in May i.e. effectively tête-à-tête. Do you agree?

Yes Sir

In view of your crowded programme I have not arranged a briefing meeting in advance of Mr. Jenkins's call. Your brief will be available before the weekend and I will ensure that it is completely up-to-date.

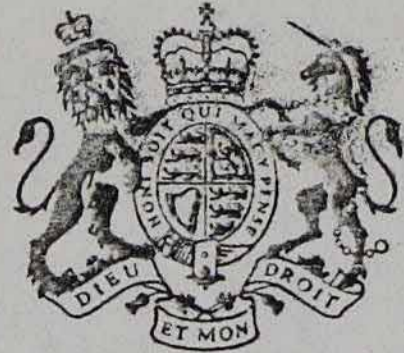
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17 October 1979

CONFIDENTIAL

B/F 17.10.79.



Fue

Euro Pd

cc D/Energy

10 DOWNING STREET

From the Private Secretary

26 September 1979

THE PRESIDENT OF THE COMMISSION

I have been in touch with Mr. Roy Jenkins' office about the possibility of a meeting between the Prime Minister and the President of the Commission to discuss the run up to the European Council in Dublin. We have agreed that a suitable opportunity will present itself when Mr. Jenkins visits London on 22 October. The meeting will take place at 1130 a.m.

I should be grateful if the brief could reach me by close of play on Wednesday 17 October.

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

M. O'D. B. ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER

Meeting with the President of the Commission

I mentioned to you yesterday the possibility of your meeting Mr. Jenkins on Friday 28 September. It has proved impossible to arrange a meeting but Mr. Jenkins's office have proposed, as an alternative, a talk on 22 October. This would be possible for you. It also looks a sensible time in that the Commission will by then be formulating their proposals for a solution to the budgetary problem but are unlikely to have finalised their recommendations.

Can I agree?

Yes but - 21- in the day
Parliament
rearranges

11.30 on 22 October.

Parls 10 or
must keep

the afternoon -
clear
any.

25 September 1979

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Foreign and Commonwealth Office

London SW1A 2AH

17 October 1979

F.C.O.
Paul
Dear Michael,

Call on the Prime Minister by the President of the Commission:
22 October

/ As requested in your letter of 26 September, I enclose a brief for the Prime Minister's use on this occasion.

It is not yet clear exactly what subjects Mr Jenkins intends to raise. The briefs cover those which his cabinet have told UKREP are likely to come up. But it is possible that he will decide to raise others. His cabinet will warn UKREP if this happens, and we shall let you have whatever additional briefing is necessary.

I am sending copies of this letter to Tony Battishill (HM Treasury), Garth Waters (MAFF), Stuart Hampson (Dept of Trade), Ian Ellison (Dept of Industry), Bill Burroughs (Dept of Energy) and Martin Vile (Cabinet Office).

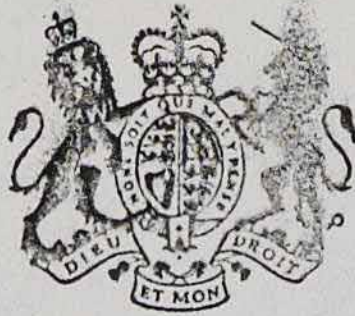
Yours *as*

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

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Europa file ✓

10 DOWNING STREET

From the Private Secretary

14 September 1979

Many thanks for your letter of 7 September and its enclosures. I am not quite sure when I will be able to read them - still less when the Prime Minister will be able to do so! But I am sure they will be of interest. If the Prime Minister comments on them I will of course let you know.

M. O'D. B. ALEXANDER

C. C. C. Tickell, Esq., M.V.O.

CONFIDENTIAL

COMMISSION
OF THE
EUROPEAN COMMUNITIES

Office of the President

Chef de Cabinet

M O B Alexander Esq
10 Downing Street
London SW1

7 September 1979

Dear Michael,

We spoke yesterday about the point which arose during the conversation between the Prime Minister and Roy Jenkins on 21 May about the implications for Western policy of the mutual dependence of oil producers and food producers in an increasingly interdependent world. I then referred to a CIA report which touched on this among other subjects. Subsequently I was asked if I could lay my hands on it in case the Prime Minister were still interested.

I enclose a copy of the paper I had in mind. It is entitled Potential Implications of Trends in World Population, Food Production, and Climate, and was completed in August 1974. I suspect, though I am not sure, that the paper has been revised a number of times since then. I originally got it from the CIA when I was at Harvard writing my book on climatic change and its implications for world affairs.

At about the same time the CIA produced a paper entitled A Study of Climatological Research as it Pertains to Intelligence Problems. This was used by the CIA in testimony to congressional committees, and was released to the press in May 1976. Frankly it is not very good and suffers from some inaccuracies; but it still contains one or two interesting ideas. For all I know, that also may have been revised. In case it is of any interest I enclose a copy.

Yours ever

Crispin

Crispin Tickell

Encs

COMMISSION
OF THE
EUROPEAN COMMUNITIES

Office of the President

Chef de Cabinet

Michael Franklin Esq
Cabinet Office
London

12 June 1979

Dear Michael,

When the Prime Minister received President Jenkins on 21 May, Mrs Thatcher mentioned the case of the Harland and Wolff contract for building a car ferry for the Fishguard service of British Rail. Mr Jenkins promised to look into the matter and let Mrs Thatcher know the result.

The Commission has now looked further into the case. Although it has not yet taken a formal decision, those concerned have recommended that the Commission should raise no further objection to the grant of aid in this instance and should close the Article 93(2) EEC procedure of which the previous British Government was informed on 23 February this year. In doing so they have taken account of the relatively low rate of aid proposed and the efforts which the shipyard has been making to adapt itself to market conditions. The Commission is also well aware of the specific problems of Ulster which have to be borne in mind in cases of this kind.

We shall let you know as soon as a formal decision is taken.

Yours ever

Crispin Tickell

Crispin Tickell

Euro Pol.

*cc Mr Cartledge (M10)
Mr Kettlewell (Aco)
Mr Elliott
Miss Kelley (N10)
Mr Thomas*

Mr 14/6

NBM ylt.

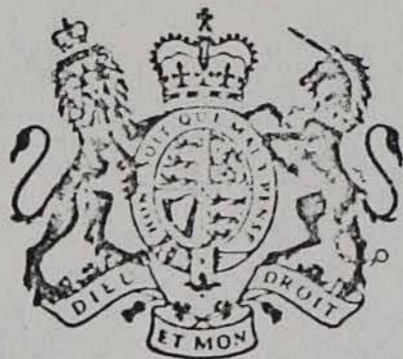
*Ward
12/6*

*Mr Jenkins
will write to
P.M.*

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FILE

VE



Original (& BF) on
Energy (Policy) May 79
EUROPEAN
TREATY

10 DOWNING STREET

~~BF 20.5.79~~

Burns Por.

From the Private Secretary

21 May 1979

Dear Paul,

Call on the Prime Minister by the President
of the European Commission on 21 May 1979

The President of the European Commission, Mr. Foy Jenkins, called on the Prime Minister at No. 10 today at 12 noon. Mr. Jenkins was accompanied by Mr. Tickell; Mr. Michael Franklin (Cabinet Office) was present.

I enclose a copy of my note of the Prime Minister's discussion with Mr. Jenkins. I should be grateful if you would ensure that it is given the restricted distribution appropriate to Prime Ministerial records.

You will note the Prime Minister's reference to the need for co-ordinated research on the bargaining position of the West, and of the EEC in particular, vis-a-vis OPEC in any forthcoming negotiations on oil prices and supplies. I should be grateful for advice on how such a study might be initiated, either nationally or within the Community framework. I should also be grateful if the CIA paper produced in 1976, to which Mr. Tickell referred, could be identified and a copy sent to me for the Prime Minister's information.

I am sending copies of this letter and enclosure to Garth Waters (Ministry of Agriculture, Fisheries and Food), Andrew Duguid (Department of Industry), Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office).

Yours ever,

James Callaghan

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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cc Master set
Euro Pol: Policy: May 79
Euro Pol: CAP: May 79
Energy: Euro Pol: May 79

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

Present:

The Prime Minister

The Rt. Hon. Roy Jenkins

Mr. Michael Franklin

Mr. Crispin Tickell

Mr. B.G. Cartledge

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

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

/ pointed

CONFIDENTIAL

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-2-

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

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

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

/disposition

CONFIDENTIAL

CONFIDENTIAL

- 3 -

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

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

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

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CONFIDENTIAL

- 4 -

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

/ Mr. Jenkins

CONFIDENTIAL

CONFIDENTIAL

- 5 -

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

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

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

/ with a drain

CONFIDENTIAL

CONFIDENTIAL

- 6 -

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

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

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

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

/ Secretary had done

CONFIDENTIAL

CONFIDENTIAL

- 7 -

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

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

/ The Prime Minister

CONFIDENTIAL

CONFIDENTIAL

- 8 -

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

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

The discussion ended at 1315.

Bym.

21 May 1979

CONFIDENTIAL

European Policy
~~Prime Minister~~
 There are the
 answers to two
 queries which you
 raised on the brief.

MR CARTLEDGE

CALL ON THE PRIME MINISTER BY THE PRESIDENT OF THE EUROPEAN COMMISSION

1. You asked this morning for further information on paragraphs 12(b) and 14 of the brief forwarded with Mr Lever's covering note of 18 May.

Para. 12(b): UK National Conservation Measures

2. The measures in question involve the introduction of larger mesh sizes for white fish and nephrops (prawns etc.) throughout most of Britain's fishing limits. The date of introduction was changed from 1 June to 1 July for two reasons: to allow time for the necessary orders to be laid before Parliament, and to give the fishing industry more time to use up their smaller nets and equip themselves with nets of the new larger sizes.

3. The Commission are likely to raise a formal objection to these measures, both because they hold that we are required to seek their approval for them (whereas we interpret the relevant provision as only calling for notification) and because the coverage of our conservation measures goes wider than the Commission think necessary. But when Mr Buchanan Smith spoke to Commissioner Gundelach last Friday about them he was not unduly perturbed and welcomed the extra month's delay.

Para. 14: Energy

4. The Foreign and Commonwealth Office are unable to cast any additional light on the content of the conversation between the Foreign Secretary and Mr Jenkins referred to in this paragraph. It took place in the aircraft conveying them to Chateau Mercues for the informal Foreign Ministers meeting on 12/13 May and ^{Mr Jenkins} did not enlarge then on his assertion that the UK had a major role to play in the development of Community Energy policy.

Handwritten signature

M D M FRANKLIN

21 May 1979

PRIME MINISTER

YOUR MEETING WITH MR. ROY JENKINS ON 21 MAY

You agreed to see the President of the EEC Commission, Mr. Roy Jenkins, on Monday 21 May at 1200 noon. Mr. Jenkins will be accompanied by his Chef de Cabinet, Mr. Crispin Tickell (who is on secondment from our own Diplomatic Service).

Agreed
If you agree, I think it would be useful for Mr. Franklin, Head of the European Unit in the Cabinet Office, to be present.

Of the Annexes, I would draw your attention particularly to Annex C (the Commission's latest figures on Budgetary contributions) and to Annex D, which gives quite a good explanation of the MCA problem in relation to Budgetary calculations.

You will wish to bear in mind when you see Mr. Jenkins that he will almost certainly ask to call on you again before the European Council meeting in Strasbourg (21/22 June); that second call, rather than this one, might be the occasion for getting into detail on questions like the Budget. *J.M.*

AT.

18 May 1979

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ADDRESS BY THE MOST HON ROY JENKINS, PRESIDENT OF
THE COMMISSION OF THE EUROPEAN COMMUNITIES, TO THE
COULDFORTH OF BRITISH INDUSTRY ANNUAL DINNER

London, 16th May 1979

I am grateful to you, Mr President, for proposing that the theme for the CBI Annual Dinner should be Europe. Both the choice and the timing are particularly apt. The theme of Europe is the more appropriate as a new British Government gets down to the basic task of charting the course of Britain's relations with the Community, not just the tactics of monthly meetings of the Council of Ministers, but the strategic way ahead.

Changes of Government, while taking place almost with the smoothness of the changing of the guard at Buckingham Palace, have nonetheless over the past two decades presaged reversals and re-reversals of policies which have been most damaging for our economic performance. I have long thought that a very good test of the inherent value of any major legislative measure is whether it is likely to survive the next political tilt. This does not mean that we must always go for soggy compromises

/ and that

and that no difficult or contentious measures should ever be undertaken. A sharp change of direction may sometimes be necessary. Some of the major and most permanent changes in our history have been bitterly controversial at the time : the first Reform Bill or the Repeal of the Corn Laws in the last century; the first approaches to the Welfare State or the curbing of the absolute powers of the House of Lords at the beginning of this century; the start of commercial television in the fifties. They were all deeply controversial at the time, but they were all irreversible in the properly democratic sense, irreversible because they were sufficiently in tune with the needs of people and country that no sensible party could successfully seek votes on the basis of a reversal. How different this has been for many of the unwanted, irrelevant, too easily reversible measures of the previous decade or so : various national superannuation schemes in the sixties and early seventies : the nationalisation, denationalisation or renationalisation of this or that industry; whether a board called X or called Y should attempt to deal with prices or incomes or both.

Industry and the economy as a whole need, in my view, a greater stability of policy. We could avoid a lot of unnecessary upheaval, a lot of useless over-legislation, if ~~politicians~~ ministers would ask themselves the simple question : has ^{the measure} a good chance of lasting ? If so, and you believe in it, do it. If not, spare us from too many queasy rides on the ideological big dipper.

/ But I must

But I must return to my European last. Your theme this evening is particularly appropriate in the run-up to an historic event, direct elections to the European Parliament, when in three weeks' time over 180 million European electors from Greenland to Sicily will have the opportunity to vote in perhaps the first international election of its kind ever held.

At times in the recent past it seemed to many in Europe that the brave venture of the 1950s and 1960s was beginning to stagnate politically as well as economically, that it had lost the will and spirit to cope with the many challenges facing us or to make the necessary progress towards longstanding objectives. Let me offer you three reasons why I believe that such a picture - a picture of the European coach shunted off the mainline into some quiet siding - is not true of 1979, if indeed it was ever true. First, there was the decision to put in place the new European Monetary System. The EMS is, of course, a new instrument. It has only just been forged and perhaps its time of testing is yet to come. Nevertheless, I am convinced that it is an instrument of potentially vital importance capable of transforming the prevailing economic climate. Second, there are direct elections themselves. Third, there is the fact that three newly re-born democracies in Southern Europe are clamouring both to symbolise and to underpin their return to democracy by urgently seeking entry to the family of the European Community. Greece will be a Member at the beginning of 1981. We are already in negotiation with Spain and Portugal.

That, whatever else it is, is not a picture of a stagnant Community.

Against this background of movement and action, where should we in Britain be putting the emphasis? We must be clear on one essential issue: that we are trying to achieve results for ourselves within the Community, and for the Community in the world, and not, consciously or unconsciously, skilfully or frivolously, trying to create either the reality or the illusion of a break scenario, in which we might try to reverse the referendum, or at least retire growling into some largely non-participating semi-overt half-membership?

The British people showed no desire to contradict this month what they said so clearly and with such overwhelming force at the referendum in 1975. They want a positive, not a negative role in Europe; they want a constructive, not a destructive approach; they want skill in the presentation and handling of British interests allied to a vision about the relationship of those interests to the interest of Europe as a whole. Above all they want sensible cooperation not desperate confrontation in Europe. And I welcome the way in which the new British Government has begun its task underlining its essential commitment to the principles of the Community without sacrificing its concern for issues of concern to Britain. That is the only way ahead. Of that I am absolutely convinced.

/ Let us be in no doubt

Let us be in no doubt about what would be involved if we were tempted by the other choice. It would show an almost incredible inconstancy of purpose. We would be reversing within a few years the whole carefully built, democratically decided orientation of our economic and foreign policy. In the process we would irrecoverably damage our national influence and reputation. Traditionally we were rich and powerful, qualities which nearly always earn respect, sometimes esteem and occasionally affection. Then a generation ago we were remarkably steadfast. When the other attributes were going, that sustained us for half of the post-war period. If we lose all three we are nothing.

As a bargaining card the hint of the threat of withdrawal, or of sullen non-cooperation, is useless. We do have a good deal to bargain for in the Community. The CAP is in urgent need of being saved from its own distortions. A rigorous price policy, a price freeze for this year at least in surplus products is essential if we are to rebalance the markets. That is the Commission's view. It is also, I believe, the view that most other Governments, even if a little reluctantly, know in their hearts is right. But British speakers and commentators do not help to advance this view.

- by pretending that without the CAP all problems of agricultural support would disappear and we would all live happily in a free trade world of cheap food imports. If we had continued outside with our own deficiency payments system it would probably have cost the British budget ^{around} £1,100 million in 1978;

/ - by standing

by standing out for long from the central mechanism of the EMS, now intimately linked with the agricultural problem, oblivious of the lessons of our two previous late arrivals, into the Coal and Steel Community and into the Economic Community itself.

There is also of course a general budgetary problem for Britain. It should not be seen out of proportion, but it certainly exists. Our total contribution to the Community budget was last year about £10 a head, compared with the total cost of government in Britain of nearly £1000 a head. Even if we were so unfairly treated that we got nothing back directly, which is of course far from the case, we would still be better off than outside on our own, in the cold. But it is nonetheless very much better that we should be fairly treated. And that I believe will be the case. The Community could not have survived and strengthened over 22 years without dealing with justified grievances. The British case needs however to be played with particular skill and in a framework of sympathy and goodwill.

All this the CBI knows and understands. And I have long valued the support and interest that you have shown in European matters. You have provided a firm voice, the voice of clear sighted commonsense which perceives and argues that only as an active and involved member of the European Community can Britain make its own distinctive contribution in the world, economically and politically.

Europe is sometimes accused of having lost its way, the grand lines have petered out in a morass of detail. I half agree. We do a lot of quibbling. Vision sometimes perishes, and Europe's united policy impact on the world does not always prosper.

Great enterprises involve a combination of detail and vision. This has always been true of good Governments. It is true in the European context. Jean Monnet, the great father of the Community and whose death we mourned in March, did not forget his detail. We should not throw out the baby with the bathwater. We should be selective in our detail, but we should neither abandon our determination to remove the remaining and substantial imperfections of the Common Market (which can be of great value to British industry) nor let the Treaties, in a Community which must be a Community of law, be blatantly ignored.

But, this said, there is a deeper truth. The Common Market is only part of the idea of the European Community. That idea has always been fundamentally political, to give Europe back at least part of the place in the world which it so wantonly threw away over two generations of civil war. Perhaps occasionally the momentum flags, the inspiration is occasionally lacking. But if we in Britain feel that, for God's sake, let us not complain too much from the sidelines. Let us get in and do something about it. The opportunity

Annex B. B

→ EMBARGOED FOR 2120 ON
THURSDAY, 10 MAY, 1979

TEXT OF A SPEECH BY THE PRIME MINISTER,
THE RT. HON. MARGARET THATCHER, M.P.,
AT A DINNER GIVEN BY HER MAJESTY'S GOVERNMENT
IN HONOUR OF THE CHANCELLOR OF
THE FEDERAL REPUBLIC OF GERMANY,
HERR HELMUT SCHMIDT, AT 10 DOWNING STREET
ON THURSDAY, 10 MAY, 1979

10 Downing Street,
Whitehall, S.W.1.

I could not be more delighted to have, as my first visitors, the Chancellor of the Federal Republic of Germany and his colleagues.

Mr. Chancellor, your country was mentioned with admiration in two recent documents, in one of which I myself had a hand.

I refer, of course, to the Conservative and the Labour Party manifestos.

It is not difficult to see why.

The Federal Republic offers an enviable example of economic and social progress combined with social and political stability.

(In less than two weeks' time you will be celebrating the 30th Anniversary of the German Basic Law, your Constitution, which has provided the framework for this.)

I firmly believe that, given the right policies and the right leadership, the same progress lies within the grasp of the British people.

/ That is

That is the task to which my Government has this week set its hand.

Our countries share a wide range of vital interests.

First and foremost, we are both members of the North Atlantic Alliance.

That membership is a cornerstone of our foreign policy, as it is of yours.

The British forces committed by Treaty to the mainland of Europe are, after those of the Federal Republic and the United States, the largest NATO forces in the central region.

The United Kingdom is one of the three protecting powers in Berlin.

As Her Majesty The Queen reminded the people of Berlin only last year, our commitment to the freedom and security of Berlin is absolute.

It is my Government's firm intention (though, with the Chancellor of the Exchequer here, I need perhaps to say, "So far as our means permit"), to maintain and improve the capability of Britain's armed forces.

/ We shall

We shall play our full part, with such measures as may be agreed to be necessary, in countering the military threat.

We share a common interest in a military balance between East and West, for we share a common belief that such a balance genuinely contributes to stability and peace in Europe.

Second, the framework within which we operate is the same for both of us: a world of dear raw materials, tough competition and demanding markets.

In this world, the largest single trading unit is the European Community.

Let me therefore, at the very beginning of what will I hope be a long and close association between us, make clear the spirit in which I and my Government approach the EEC.

Third, we as a Government are committed to British membership of the Community.

The decision was taken by Parliament and confirmed by the British people.

/Ours is

Ours is not a grudging acquiescence in
Community membership.

We believe it is not only right for Europe
but right for this country.

Our purpose is to engage fully and actively
with our partners in developing the Community.

Let me repeat what we said in our manifesto: "there is
much that we can achieve together; much more
than we can achieve alone".

This approach will underlie all our dealings
in the Community.

We shall want to narrow areas of disagreement,
not to enlarge them; to solve disputes,
not to sharpen them.

It has been suggested by some people in this country that
I and my Government will be a "soft touch"
in the Community.

/In case

In case such a rumour may have reached your ears, Mr. Chancellor, from little birds in Smith Square, Belgrave Square, or anywhere else, it is only fair that I should advise you frankly to dismiss it (as my own colleagues did, long ago!).

We shall judge what British interests are and we shall be resolute in defending them.

I am sure you take the same approach in the Federal Republic.

If policies are working badly, the fact will indeed show up first in the form of unfair consequences for one member or another.

When this happens, to put the policies right is not just an act of charity or of justice.

It is essential for the health and well-being of the Community as a whole.

Of course we must have an agreement on the fishing industry which takes our special position into account.

/Of course

Of course it is bad for the United Kingdom if the Community spends a large part of its resources storing and disposing of unwanted agricultural surpluses.

And of course it is unacceptable to the United Kingdom to pay the lion's share of the enormous costs of this operation.

But it is not good for the Community either.

/There is

There is nothing wrong in finding that after a certain number of years policies need to be changed to meet new circumstances, or that anomalies which flow from them need to be corrected.

Such necessary changes must be made by agreement amongst the member governments.

In making them, we shall not undermine the Community: we shall make it better able to serve the common interest, and to be fair, just, and reasonable to all its members.

We shall therefore be looking to our partners to make an effort of understanding and of goodwill.

Of understanding, because we shall be asking them to take a new look at the way certain policies have worked and not simply to cling to them because they are long established and familiar.

Of goodwill, because it is hard to accept modifications of policies and arrangements which bring national advantages.

/If other

If other countries' own interests are being well served, why should they take account of the disadvantages incurred by Britain? They will do so only if -

- they too firmly believe that the Community is not only a matter of seeking advantages for oneself;
- they too believe that we must all prosper together;
- ~~we are not one day to fall apart;~~
- they too believe that the rising tide of prosperity must indeed lift all the ships and not leave one or two stranded on the sandbanks.

This is my European philosophy.

If our partners share this vision I believe that together we shall find solutions to our problems,

~~and especially the reduction of the unfair budgetary burden at present imposed on the United Kingdom.~~

/ Without

Without that vision and without a readiness to make adjustments and sacrifices in the broader Community interest, our enterprise could not succeed.

But I believe that with your help, Mr. Chancellor, and with the support of our fellow Heads of Government, we shall succeed and that we shall make it better able to go forward in the common interest.

All these points are familiar to you - but we shall pursue them against the background of a deep belief in the ideals and purpose of the Community - as problems which impede the achievement of the longer purpose.

And finally let me say a word about my own European philosophy.

It is founded in the belief:

that the variety of our distinct nation states which we must always cherish, is enriched by a common purpose;

/that the view

that the view of free Europe is stronger when we pursue our ideals together.

The vision of Europe which I am sure you, Mr. Chancellor, will recognise and share is one that first and foremost offers peace, prosperity, liberty and democracy to all within it.

A Community whose voice will always be heard throughout the world advocating the case of justice.

A Europe within which freedom means also free enterprise, fair competition, and the chance for every citizen to take his own decisions and to develop his own talents.

I believe that this concept of Europe is nearer to realisation than many people suppose and that by our joint efforts in the Community we can bring it closer still.

/It is

In that spirit I propose the health of Chancellor Schmidt
and the friendship of our two peoples.

TABLE 1

NET TRANSFERS BY (TO) MEMBER STATES IN 1978

million eua

	1978 - Actual position			1978 - Without Article 131 adjustments		
	Recorded transfers	MCAs	Adjusted transfers	Recorded transfers	MCAs	Adjusted transfers
Belgium/Luxembourg	+ 393.4	- 43.1	+ 350.3	+ 415.4	- 43.1	+ 372.3
Denmark	+ 620.4	- 239.1	+ 381.3	+ 620.4	- 239.1	+ 381.3
Federal Republic of Germany	- 346.8	- 173.0	- 519.8 (1)	- 213.6	- 173.0	- 386.6 (2)
France	- 33.3	- 287.7	- 321.0	+ 47.4	- 287.7	- 240.3
Ireland	+ 530.5	- 210.4	+ 320.1	+ 517.8	- 210.4	+ 307.4
Italy	- 723.4 (3)	+ 418.5	- 304.9	- 672.9	+ 418.5	- 254.4
Netherlands	+ 236.8	- 179.8	+ 57.0	+ 265.4	- 179.8	+ 85.6
United Kingdom	-1121.6 (3)	+ 714.6	- 407.0 (2)	-1423.9	+ 714.6	- 709.3 (1)
Direct aid to Third Countries	+ 39.0		+ 39.0	+ 39.0		+ 39.0
Change in Commission's balances with national treasuries (?)	+ 393.9		+ 393.9	+ 393.9		+ 393.9
Differences on exchange rates (3)	+ 11.1		+ 11.1	+ 11.1		+ 11.1
	0	0	0	0	0	0

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

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

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

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THE ATTRIBUTION OF MCAs UNDER THE COMMUNITY BUDGET

Note by Officials

INTRODUCTION

We are in dispute with our Community partners over whether monetary compensatory amounts (MCAs) paid under the CAP benefit the importing country or the exporting country and hence how they should be treated in calculating individual countries net contribution to or benefit from the Community budget. A plain man's guide to the MCA system is attached as Annex B. During the Election campaign, the then shadow Foreign and Commonwealth Secretary suggested that the dispute over MCAs should be the subject of an independent study. This note considers the importance of the issue in relation to our negotiating objectives over the Community budget and seeks Ministerial instructions on how we should proceed.

2. The calculation of net contributions/receipts under the Community Budget rests on the assumption that Community expenditure benefits the Member State in which it occurs and represents a resource transfer to that state. But MCAs relate to trade between member states and may be paid at either end: MCAs on UK and Italian imports were paid in the importing countries until 1976 but since then have been paid in the exporting member state.

3. The UK has argued that MCAs allow producers in other member states to compete on the lower price UK market and to suffer no reduction in their return; and therefore benefit them. Moreover the distribution of MCAs between importing and exporting countries is arbitrary depending on the currency unit used for the purpose of expressing the so-called 'common price' level. But the essential argument turns on the fact that the CAP obliges us to buy at prices well above world market prices and MCAs only serve to reduce the difference. They are thus not a gain to the UK but

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partial offset to the resource cost of the CAP.

4. Most of the other member states contest this approach. They point out that, given the CAP framework and the common price level, UK consumers would pay higher prices for food if MCAs did not exist. Since our argument rests on the resource cost of the CAP they can point out other divergences between economic and Budgetary flows which if brought into the argument would risk delay in getting our Budgetary grievances put right. Our case is also open to challenge, first because in 1975 we accepted that, under the Financial Mechanism, MCAs would be attributed as a receipt to us; and second because the relevant Council Regulation provides that MCAs should normally be paid out in importing states. It is only a derogation, subject to yearly renewal by agreement with the exporters, which allows MCAs on imports into the UK and Italy to be paid by the exporter and thus show up favourably in the budget records.

5. The two methods give very different results. The table at Annex B shows our net contribution in 1978 at 1,121 million European Units of Account (MEUA) on the basis we favour as compared with only 407 MEUAs on an importer pays basis. However, the UK's MCAs were especially high in 1978. Exchange rate movements and the recently agreed devaluation of the Green Pound should make the difference between the two methods considerably less in 1979, and the phasing out of MCAs would eventually eliminate it altogether.

6. The exporting member states show no signs of abandoning their arguments, and there is little hope of winning them over to our way of thinking. But so long as the figures are in dispute, other member states have an excuse to delay any attempt at settlement of the budget issue. Since it is likely therefore that, at some point, a compromise will have to be found, it is arguable that this should be attempted at an early stage so as to clear the way for a negotiated settlement of our budget problem on the basis of an agreed set of figures.

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7. On the other hand, by compromising we should be waiving a claim to a considerable sum of money, and thus reduce the benefit which we might receive from an eventual agreement. An early compromise might prejudice our case on the adverse flow of resources under the CAP. Moreover, if we made concessions on the treatment of MCAs other countries might argue that other items of Budgetary expenditure like subsidies to dispose of agricultural surpluses should equally be ignored for the purposes of net contribution calculations. Finally, there is no guarantee that our readiness to compromise would produce the desired result. It suits the richer member states for the dispute about MCAs to be kept going. They too will not wish to prejudice their position as regards the Financial Mechanism, or any other compensating mechanism which might be introduced.

8. If Ministers were to decide that we should go for an early compromise, the most sensible solution would be to propose that MCAs on inter Community trade should be excluded altogether from the calculations of net contributions (as will be seen from Annex B this would reduce our net contribution in 1978 from 1121 MEUA to 962 MEUA). But it would be important to insist such a compromise did not prejudice our position, or that of other member states, in either the economic importance of MCAs or how they should be treated in any subsequent corrective mechanism.

Recommendation

9. It is recommended that, in the forthcoming bilateral contacts with other Member States, we should maintain our existing arguments on the treatment of MCAs, but review our position in the light of the reactions of other Member States before the European Council in Strasbourg. We should in any case not shift our position without consultation with the Italians who support us.

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ANNEX A

NET BUDGETARY TRANSFERS IN 1978
(ACTUAL)

	Recorded transfers	"Importer pays" basis	Compromise excluding expenditure on intra- Community MCAs
	MEUA	MEUA	MEUA
Belgium/Luxembourg	+ 393.4	+ 350.3	+ 346.9
Denmark	+ 620.4	+ 381.3	+ 381.3
Germany	- 346.8	- 519.8	- 434.4
France	- 33.3	- 321.0	- 142.4
Ireland	+ 530.5	+ 320.1	+ 350.1
Italy	- 723.4	- 304.9	- 682.7
Netherlands	+ 236.8	+ 57.0	+ 27.2
UK	-1121.6	- 407.0	- 962.2

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ANNEX A (continued)

NET BUDGETARY TRANSFERS IN 1978
(EXCLUDING THE EFFECTS OF ARTICLE 131 REFUNDS)

	Recorded transfers	"Importer pays" basis	Compromise excluding expenditure on intra- Community MCAs.
	MEUA	MEUA	MEUA
Belgium/Luxembourg	+ 415.4	+ 372.3	+ 368.9
Denmark	+ 670.4	+ 381.3	+ 381.3
Germany	- 213.6	- 386.6	- 301.2
France	+ 47.4	- 240.3	- 61.7
Ireland	+ 517.8	+ 307.4	+ 337.4
Italy	- 672.9	- 254.4	- 632.2
Netherlands	+ 265.4	+ 85.6	+ 55.8
UK	-1423.9	- 709.3	-1264.5

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MCAs IN PLAIN LANGUAGE

EEC SYSTEM OF AGRICULTURAL SUPPORT

1 Before joining the Community, the UK supported most farm products by placing no or only modest restrictions on imports, allowing the internal market price to form freely, and making up producers' returns to a guaranteed level by means of direct payments. The EEC supports agriculture mainly by managing the internal market at the level of price which is considered to be an appropriate return for the producer; direct payments to boost producers' returns are little used. The main instruments of market management are the threshold prices (enforced by variable levies) at which goods are admitted from third countries and the intervention prices at which producers may sell to official agencies if they cannot get a better price on the market: there are also export subsidies, to enable EEC production to compete on the world market. The internal market can thus be expected to settle somewhere between the threshold and intervention prices - towards the latter if the commodity concerned is in surplus.

2 All prices, rates of levy and subsidy etc are set in Units of Account (UA). For the practical operation of the CAP, they have to be converted into national currencies.

HOW DID MCAs BEGIN?

3 The CAP began in the days of fixed exchange rates. The UA was defined as an amount of gold equal to the then value of the US dollar and the prices etc were converted into national currencies at each country's official parity against the dollar. They thus had more or less the same real value throughout the Community.

4 In 1969 the French franc was devalued and the D-mark revalued. Had the rules been strictly applied, support prices and agricultural market prices would have risen sharply in France and fallen sharply in Germany. France was not prepared to see her consumers, nor Germany her farmers, penalised over-night. It was therefore agreed that they should temporarily retain their old price levels and phase the new ones in gradually.

5 This mean that German prices were higher and French prices lower than those elsewhere. Had nothing been done, all farmers would have tried to send their produce for intervention in Germany, all imports from third countries would have been channelled through France, and all exports through Germany. Accordingly Monetary Compensatory Amounts (MCAs), equal to the price differences, were introduced as levies on French exports to, and German imports from, other Member States. They also operated as payments on goods going in the opposite direction, so that exporters could remain competitive in the lower-price markets. Finally the levies on French and German imports from non-EEC countries, and the subsidies on their exports, had to be similarly adjusted. The intention, of course, was that the MCAs should be phased out as the use of the new parities for agriculture in those two countries was phased in.

THE SUBSEQUENT DEVELOPMENT OF MCAs

6 Before this process was completed, it was overtaken by further changes in exchange rates, leading eventually to the end of the link between the dollar and gold, the abandonment of fixed parities as the basis of the international monetary system, and the generalised introduction of floating currencies. The rules for the value of the UA and its conversion into national currencies therefore ceased to have any meaning. It became necessary for conversion rates to be set by decision of the Council of Ministers, and no rules were adopted for the automatic adjustment of these rates in line with changes in currency values, with the aim of maintaining a uniform farm price level in all Member States. The conversion rates, now termed "green rates", have since then been changed only from time to time by negotiation in the Council.

7 Since changes in real exchange rates reflect differences in rates of inflation, the Member States might have been expected to wish to adjust their green rates, at least over a period, broadly in line with the changes in their exchange rates. But most have not so far been prepared to adjust them by as much as this.

Consequently the farm support and market prices have become different in almost every Member State and MCAs have been generalised. There can be little doubt that these differences reflect not merely exchange rate developments but different views of the Governments concerned about the level at which agriculture should be supported and the respective claims of their producers and consumers.

THE "COMMON PRICE LEVEL"

8 In 1969 it was clear that the French and German price levels were temporarily out of line with the level applying everywhere else. With the general introduction of floating exchange rates and fixed green rates, leading to different farm prices almost everywhere, one might suppose that it was no longer logically possible to say from what level these different price levels had diverged. In fact the EEC has retained the concept of a "proper" set of exchange rates between the UA and each currency (generally called the "market rate of exchange") against which the various green rates can be measured. CAP prices converted at these market rates are referred to as the "common price level".

9 Each Member State is assigned a positive or negative "MCA percentage" based on the difference between its green rate and its "market rate". These percentages represent the approximate extent to which each Member State would have to raise or lower its prices, by changing its green rate, to arrive at the "common price level". The present (7 May 1979) percentages and relative price levels are:

	<u>MCA</u> <u>Percentage</u> %	<u>Relative price level</u> ("common price level" = 100)
Germany	+ 10.8	112.1
Benelux	+ 3.3	103.4
Denmark	0	100
Ireland	0	98.5
France	- 5.3	93.6
Italy	- 9.8	89.8
UK	- 15.6	85.4

For Member States with positive percentages, the MCA is applied as a levy on imports and a subsidy on exports; and for Member States with negative percentages, it is a subsidy on imports and a levy on exports. The actual amount is (normally) calculated by applying the percentage to the intervention price in that Member State for the commodity concerned.

10 It will be seen that the system depends very much on how the so-called market rates (and hence the "common price level") are calculated. From mid-1973 to March 1979 this was done by assuming that the UA in which CAP prices are fixed had the same value as the European Monetary Unit of Account (EMUA) used as the basis of the joint currency float or "snake". At the time this decision was taken it seemed possible that all EEC currencies would join the "snake"; but, in the event, only the stronger ones (Germany, Benelux and Denmark) remained members. The result was that, as the stronger and weaker currencies drifted apart, this was reflected entirely in an increase in the MCAs of the weak currency countries; in other words the "common price level" (by reference to which the MCAs were calculated), being tied to the stronger currencies, floated up with them.* Had the "common price level" been calculated by reference to the average of all EEC currencies, instead of only the stronger ones, the distribution of MCAs between the Member States would have been very different with a much larger figure for Germany and a correspondingly smaller one for the UK. For example the "green pound" has been devalued by 30.8% since accession, which is actually more than the fall of sterling against the average of all EEC currencies (27.4%). The fact that the UK nevertheless has an MCA of -15.6% shows by how much more sterling has fallen against the stronger currencies than against the average.

11 The snake has now been replaced by the European Monetary System (EMS) to which all EEC countries other than the UK belong. The basis of EMS is the European Currency Unit (ECU), a "basket" unit whose

*This being so, it may be wondered how any Member States ever acquired positive MCAs; the answer is partly that they already had them at the time when the common price level was linked to the snake, and partly that their currencies were subsequently revalued within the snake itself.

value is equal to the sum of defined amounts of each EEC currency (including sterling). The ECU will in future be used to calculate the "common price level" and hence MCAs. Since 1 ECU is lower in value than 1 EMUA, its adoption might have been expected to produce a sudden fall in the "common price level". However, in accordance with the decision of the European Council in December 1973, an allowance was made in the mechanics of the changeover for this difference in value so as to avoid any alteration in MCAs at the time the change was made (ie the position resulting from having linked the common price level to the snake for nearly 5 years was consolidated). But the future development of MCAs, assuming currencies continue to diverge despite EMS, can be expected to be different from what it would have been if the old system had continued.

GREEN RATE CHANGES

12 Formally, green rate changes are Council decisions taken by qualified majority vote. In practice they have been largely governed by convention. The main rule is that changes can only be made so as to reduce MCAs, that is to say the changes must move national prices in the direction of the "common price level", never away from it.

13 Originally the convention was for the Council always to accept a request for a green rate devaluation from a Member State with a negative MCA; indeed, during 1974-76 the UK was strongly pressed to devalue by more than it wished. Subsequently the Commission attempted to establish the principle that green rates should normally only be changed at the annual determination of CAP prices. At the same time the other Member States belatedly realised that a green pound devaluation encouraged UK production and (by cutting the MCAs) hampered their exports; and that they could use opposition to it as a bargaining counter in negotiations on other issues. Most recently, however, the Council adopted a resolution to the effect that MCAs should be progressively reduced in order to re-establish uniform prices and that "this progressive reduction can be accelerated at the initiative of the Member State concerned". While this wording has not yet been tested, it would appear to re-establish the previous convention.

14 Conversely, Member States with positive MCAs are supposed to feel under an obligation to reduce them by revaluing their green rates, thus moving their prices down towards the "common price level". But they have mostly been prepared to make only small moves and have insisted that it is politically impossible for them ever to contemplate a reduction in prices expressed in their national currencies. This means that, in practice, green rate revaluations are made only when the common prices themselves are being increased at the annual price-fixing by at least enough to offset the green rate change.

15 In this connection, France held up the start of EMS for three months in the hope of getting an unqualified undertaking that, if a country revalued its currency within EMS, thus increasing its positive MCA (or acquiring one), this "new" MCA would be abolished within a given period by a parallel revaluation in the green rate. However, the countries with positive MCAs stuck to their previous line, and France had to be content with a compromise to the effect that new MCAs arising within two years of the entry into force of EMS will be abolished within two years of their formation, provided this does not result in a fall in prices in national currency. In other words, the obligation only applies if, and to the extent that, the common prices themselves are raised. The previous Government refused to associate itself with this formula, on the grounds that it presupposed increases in common prices over the next few years, and that this was incompatible with the elimination of surpluses. The formula therefore remains an agreement between the other eight Member States only.

FINANCING OF MCAs

16 MCAs were originally a matter for national exchequers. (The first MCAs were, in fact, a source of revenue: Germany, a net importer, collected more in levies on her imports than she paid out on her exports, and France collected more levies on her exports than she paid out on her imports.) By the time of UK accession it had been agreed that all MCAs should accrue to, or be paid from, Community funds. Since then the net cost, which appears as an item in the budget, has become considerable because of the wide gaps between national price levels and because the two biggest net importers (the UK and Italy) have consistently operated the two

lowest price levels. In 1978 the net cost of MCAs to the budget was about £590m.

HOW MCAs ARE PAID

17 Since MCAs apply to goods crossing national frontiers, it is clearly possible for them to be paid to, or collected from, either the importer or the exporter. Up to mid-1973, the rule was that, on any trade between two Member States, the authorities in the one operating the higher price level would be responsible for paying out to the exporter (or collecting from the importer) the whole amount concerned - ie the sum, or the difference between, the two countries' MCAs. From that date, however, each Member State was in principle made responsible for operating its "own" MCA, so that the value of the goods at the moment of export was equal to the common price level. For example, on an export from Italy to France, the Italian authorities collect the Italian MCA from the exporter and the French authorities pay the French MCA to the importer.

18 At present, however, there is one major exception to this rule. The regulations provide that the amounts payable on imports into a Member State with a negative MCA from elsewhere in the Community may be paid in the exporting Member State, by agreement between the two countries concerned. In May 1976 it was agreed that all MCAs due on imports from other Members into the UK and Italy should be so paid; and, although the original motive for this change has disappeared, it has been successively extended for each subsequent calendar year. If Italy or the UK on the one hand, or the exporting countries on the other, were not prepared to continue the arrangement, there would be automatic reversion to the standard system described in paragraph 17 above.

MCAs IN TRADE WITH NON-MEMBER COUNTRIES

19 As noted in paragraph 5 above, the operation of different market price levels and farm support prices in the different Member States means that the levies on imports from non-EEC countries, and the subsidies on exports to them, have to be correspondingly adjusted.

In effect a single rate of levy and subsidy, appropriate to the common price level, is determined and this rate is then increased by the positive MCA, or reduced by the negative MCA, of the Member State engaging in the import or export.

20 Where a negative MCA is greater than the import levy from which it is to be deducted, the balance is paid as a subsidy on the import. In most cases this happens very rarely since even the lowest EEC support price is normally well above the world price level. However, there is a special application of this principle in relation to imports of sugar from the ACP countries under the Lomé Convention. The ACP are guaranteed a price equivalent to the EEC "common price" for sugar; and, since it almost all comes to the UK, the UK MCA has to be paid out on the sugar so that it can be sold competitively with the UK's own production or imports from other Member States.



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
GREAT WESTMINSTER HOUSE
HORSEFERRY ROAD, LONDON SW1P 2AE
TELEPHONE: 01-834 8511, EXT. 216 7543

Mr B Cartledge
10 Downing Street
Whitehall
London SW1

18 May 1979

Dear Mr Cartledge,

PRIME MINISTER'S MEETING WITH MR ROY JENKINS: 21 MAY
CFP

In the light of a discussion last night with our Minister I telephoned Michael Arthur (FCO) this morning with the following amendments to the briefing material which we had sent to the FCO yesterday and which, Arthur told me, had been incorporated in the comprehensive brief going forward from FCO.

LINE TO TAKE

UK National Measures

- A. The Government considers it of the highest importance to protect fish stocks for the future. We would prefer this to be achieved by collective action, but until agreement can be reached on a Community basis we may be obliged to proceed with some national measures.

Handling of CFP Negotiations

- A. It is important that sufficient time be allowed for adequate preparation for the next substantive discussion of fisheries. The issues are complex and politically very sensitive in the UK. HMG wants to play a constructive part in the search for a satisfactory settlement. But they need time to prepare the ground, at home and in bilateral contacts with the Commission and EEC partners. Premature discussion in Council can be counter-productive. Given preoccupations with the agricultural prices it seems impossible to prepare properly for a Fisheries Council to be held before July.

BACKGROUND NOTE

Paragraph 4. Last sentence to read - "A relatively low-key Council in July, but no sooner, could enable preparatory work".

Paragraph 5. Substitute:-

"Mr Jenkins may ask about the national conservation measures which the previous Government had told the Community that it intended to

/introduce

18 MAY 1979



introduce on 1 June if satisfactory Community measures had not been agreed before then. The Minister of Agriculture will tell the House on Friday 18 May that for practical reasons these measures will be implemented on 1 July 1979. He has explained to Vice-President Gundelach why HMG feels that it cannot withdraw from the course of action announced to Parliament by the previous Government in March."

I hope that it will be possible to incorporate these changes in the final brief.

Copies of this letter go to Petrie (FCO), Cormack (DAFS) and Walsh (CO).

Yours sincerely
Julian Kelsey

JULIAN KELSEY
Fisheries Secretary

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

18 May 1979

Dear Bryan

*Arline Baker
P.A.
Baker
18/5*

Since I sent you today the briefing for the Prime Minister's talk with the President of the European Commission on 21 May we have learnt that Mr Walker will be making an announcement in Parliament today on fisheries questions. MAFF have asked that certain consequential changes be made to the briefing for the Prime Minister.

I would be grateful if you would incorporate the following amendments:

Paragraph 12(b): Delete second sentence and replace by: "We would prefer this to be achieved by collective action, but until agreement can be reached on a Community basis we are obliged to proceed with some national measures, though for practical reasons we shall not be introducing until 1 July those which the previous Administration announced for 1 June."

Paragraph 12(c): Delete all after first sentence, and replace by: "The issues are complex and politically very sensitive in the UK. HMG wants to play a constructive part in the search for a satisfactory settlement. But they need time to prepare the ground, at home, and in bilateral contacts with the Commission and other EEC partners. Premature discussion could be counter-productive. Given preoccupation with the agricultural prices it seems impossible to prepare properly for a Fisheries Council to be held before July."

Paragraph 24: Insert "in July but not sooner" after "a relatively low-key Council".

Paragraph 25: This should read: "Mr Jenkins may ask about HMG's intentions on the national conservation measures which the previous Government had told the Community it intended to introduce on 1 June, if satisfactory Community measures had not been agreed before then. The Minister of Agriculture, Fisheries and Food will tell the House on Friday, 18 May that, for practical reasons, these measures will be implemented on 1 July. He has explained to Vice-President Gundelach why HMG feels that it cannot withdraw from the course of action announced to Parliament by the previous Government in March."

I am sending this to the recipients of my earlier letter.

*Yours sincerely
P. Lever*

Bryan Cartledge Esq
10 Downing Street

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COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

18 May 1979

Dear Bryan,

Call on the Prime Minister by the President of
the European Commission

/ As requested in your letter of 11 May, I enclose a brief for the Prime Minister's discussion with Mr Jenkins on 21 May. It has been agreed with the Cabinet Office and takes account of comments from the Whitehall Departments concerned. It includes (paragraph 15) a description of the present state of play on the Commission's objection to the Interest Relief Grant Scheme for Offshore Supplies.

I am sending copies of this letter to the recipients of yours.

Yours etc.

Paul

P Lever
Private Secretary

Bryan Cartledge Esq
10 Downing Street

COVERING CONFIDENTIAL

18 MAY 1979



CALL ON THE PRIME MINISTER BY THE PRESIDENT OF THE
EUROPEAN COMMISSION, 21 MAY

INTRODUCTION

A 1. Mr Jenkins will be primarily interested to hear the Prime Minister's personal approach to the Community. He will come briefed by Commission officials with counter-arguments to a number of the criticisms which the UK has made of the Community in the past. He has already made some comments in his speech to the Confederation of British Industry on 16 May (Text at Annex A). He has been very slow to appreciate the reality and importance of issues like the Community Budget. But he is now waking up to the fact that there is a serious problem and that something will have to be done about it this year. The Prime Minister will wish to stress the need for the Commission's full backing and in particular their readiness to come up with proposals for effective remedial action which could be adopted by the European Council before the end of this year.

B 2. In addition to setting out the Government's general approach to Europe (copy of speech at dinner for Chancellor Schmidt at Annex B), the Prime Minister may wish to be fairly specific about the Community problems she wishes to see tackled. These are covered below by means of Part I: suggested Speaking Notes; and Part II: supporting Background. Since Ministers are still looking at some of them the line to take is largely designed to elicit Mr Jenkins' views and comments.

PART I: SPEAKING NOTES

The Community Budget

C 3. We cannot easily sustain our pro-Community line at home when all the evidence suggests we are seriously disadvantaged by the working of the Community Budget. But before we can get remedial action taken, we need to get wider acceptance of the scale of our problem in 1980 and afterwards. We now have authoritative Commission figures for 1978 (table at Annex C), although Chancellor Schmidt still disputes them. Can we have a Commission estimate for 1980 when the transitional arrangements for the UK will have ended?

/4.

4. I have heard about the argument on the attribution of MCAs and it is clear to me that the exporters benefit - they would not sell their produce to us without MCAs to subsidise it. It would make economic nonsense to attribute the MCAs as receipts to the UK when all they do is to offset part of the resource cost of buying expensive Community food. But in any event MCAs look like being very much reduced next year.

5. Similarly there is anyway a need to define more precisely the impact on the problem of some of the proposed solutions. For example, what do you think are the chances of meeting our needs through changes in existing policies, given:

- (a) the difficulty of getting the cost of the CAP down in any reasonable time scale;
- (b) the reluctance of the Germans and others to contemplate increasing expenditure of benefit to the UK on a scale which would deal with our problem;
- (c) their even greater reluctance to change the "own resources" system of financing the Budget?

6. We must get action this year. What do you think are the chances of getting the European Council in June to accept that remedial action must be taken to deal with our Budget problem, and to ask the Commission to come forward with proposals to this effect in time for them to be worked upon and approved at the European Council in November?

7. What proposals? Do you think that the Commission could then put forward proposals for a corrective instrument? Such an instrument, either in the form of a new version of the existing financial mechanism or a different instrument altogether, would stand a much greater chance of winning acceptance if the proposals for it came from the Commission rather than from the UK Government. Indeed I am advised that, if we are not to be accused of embarking on another "renegotiation", we must try to let any proposals for a solution emerge from the discussion rather than put them forward ourselves. Schmidt warned me of the danger of appearing to start another "renegotiation".

/Common

Common Agricultural Policy

8. The central problem of the CAP is the excessive expenditure which results from the disposal of surpluses, generated by support prices which are too high. We have seen estimates that the total cost of the CAP could reach £7,289 million (10,879 mEUA) by 1980. Is this right? What is the Commission's latest view about the rate at which expenditure will grow?

9. The first priority must be to put a stop to the growth in this expenditure and we strongly support the Commission proposals for a price freeze in 1979/80. It is essential that the Commission should stick to their proposal for a price freeze. There is no justification for any increase where there are structural surpluses.

10. The ultimate target should be prices set at a level where there is no incentive to produce more than is required for consumption, trade (without export subsidies) food aid and normal stocks.

11. But this will take time. We must get the cost of the CAP under control now. We cannot go on with the imbalance of Community expenditure on agriculture. It is clear that Schmidt is not going to be willing to increase own resources to pay for it. Some way must be found of containing and then reducing the cost. This is pre-eminently the role of the Commission to propose.

Common Fisheries Policy12. (a) Government Policy on CFP

The Government is determined to secure improvements to the existing Common Fisheries Policy. As I explained to Chancellor Schmidt on Thursday 10 May, this is a matter to which the Government and the country attach great importance. Whilst, therefore, we hope that discussions with our Community partners can now be undertaken in a better spirit, there should be no illusions that the Government will not seek vigorously to meet legitimate UK interests.

(b) UK National conservation measures

The Government considers it of the highest importance to protect fish stocks for the future. We would prefer this to be achieved by collective action, but until agreement can be reached on a Community basis we are obliged to proceed with some national measures, though for practical reasons we shall not be introducing until 1 July those which the previous Administration announced for 1 June.

What
practical
reasons?

(c) Handling of CFP negotiations

It is important that sufficient time is allowed to undertake adequate preparation for the next substantive discussion of fisheries.

The issues are complex and politically very sensitive in the UK. HMG wants to play a constructive part in the search for a satisfactory settlement. But they need time to prepare the ground, at home, and in bilateral contacts with the Commission and other EEC partners. Premature discussion could be counter-productive. Given preoccupation with the agricultural prices it seems impossible to prepare properly for a Fisheries Council to be held before July.

European Monetary System

13. I am aware that EMS has been suggested as a touch-stone for our attitude to the Community. You spoke about it yourself in your speech on 17 May here in London. The Government have welcomed the development of the EMS and we shall consider afresh the participation of the UK in its various aspects. But you will realise we have to consider all the implications of joining the exchange rate regime for the Government's economic policies, which we must first get right. We shall look at the matter again when the divergence indicator mechanism is being reviewed in September.

Energy

14. I am aware that the Paris Summit and the March Energy Council decided that Community Energy Policy should in future be regarded as the sum of the national energy policies of the member States, supplemented where there is a need by measures at the Community level.

? } I understand that you told the Foreign Secretary that the UK had a major role to play in the development of Community energy policy? What in particular do you have in mind? How would it relate to the Paris Summit criteria? We will be prepared to play our full part wherever there is a sound and acceptable case for Community action; we will expect others to do the same on matters of interest to us, such as coal. We believe the particular need is for Community external solidarity in the energy field when facing up to the dangers represented by the present oil market situation.

15. So far as our North Sea policies are concerned these involve vital national interests and there are both legal and political problems; but it should be possible to overcome them if we approach them in the right way. I am sure you realise that to confront a

/new

new Government in its first hours, as Commissioner Vouel did over the Interest Relief Grant Scheme, is not the right way. We start from a very different approach to the Community and we shall need time to work out our policies.

Industrial Policy

16. (a) This Government's general approach to industrial policies will be different from that of the previous Government. We will move away from short term palliative measures of support for industry towards longer term schemes, including investment in infrastructure. We hope that the Commission will devise positive policies in these areas. We would expect this approach to be more in line with that of the Commission, particularly on state aids and competition policy.

(b) In the next few weeks, the Government will review policies in support of sectors in trouble, including shipbuilding. We hope the Commission will not press us during this period. A specific problem is the case of the Fishguard/Rosslare ferry. The order from British Rail went to Harland and Wolff. The Commission have refused to approve the order until HMG give an assurance that future orders which involve Government subsidy should be tendered among all Community yards. This seems unreasonable. We have no power to dictate to firms to tender in a particular way.

Would you be prepared to take this up with Commissioner Vouel yourself? Or would you prefer us to do so?. You will understand that any loss of employment in Northern Ireland that can be blamed on the Commission would have the most serious political implications.

/PART II: BACKGROUND

PART II: BACKGROUND

The Community Budget

17. Mr Jenkins may be unwilling to give estimates for 1980. Commissioner Ortoli dodges round the issue whenever he is asked to produce them. Mr Jenkins should therefore be given the strongest incentive to get them out.

18. The first official Commission figures on the size of contributions were published in the Economic Policy Committee Report of November 1978 in connection with the so-called "concurrent studies" exercise related to the European Monetary System. The figures published in the report were for the three years up to 1977. Updated figures covering 1978 were published by the Commission on C 6 April 1979 (Annex c).

D 19. The question of the attribution of Monetary Compensatory Amounts is set out in detail at Annex D.

20. The point of the questions in paragraph 5 of the Speaking Note is that the chances of meeting our needs through changes in existing policies are nil. Mr Jenkins must be brought to realise this. And to improve on the Commission's preparations for study by the European Council.

21. The European Council of March 1979 invited the Commission and Council to make an in-depth examination of the contribution of the Community instruments to the achievement of convergence. This report has been prepared by the Co-ordinating Group and has been examined in draft by the Finance Council. At present it does not reflect the importance we attach to the economic effect of the present adverse resource transfers. However it does represent a beginning of a recognition of the importance of this problem. The final version of the report will be presented to the June European Council.

Common Agricultural Policy

22. The estimated cost of the CAP in 1979 is £6650 million and the bulk of this will be spent on three commodities, milk, cereals and sugar, which account respectively for 37%, 19% and 10% of the total. The cost is growing rapidly. Preliminary figures for 1980 are available and have been discussed at working level in Brussels. The

/1980

1980 forecast is 10,879 mEUA (£7,289 million), 13.5% above the budget provision for 1979 (9,582 mEUS). If MCA expenditure is excluded in both years, the increase is even bigger, at 16.7%.

23. Chancellor Schmidt suggested using the VAT 1% ceiling as a lever to contain the cost of the CAP. This would not suit us, since it would mean letting the cost grow for 2 or 3 more years, and not reducing its 75% share of the budget. We need earlier action to contain and then reduce the cost.

Common Fisheries Policy

24. The French Presidency have announced their intention to hold a Fisheries Council in June. In view of the lack of preparation and the prospect of an agricultural price-fixing "marathon" in June it will be difficult for this Council to make progress on the substantive CFP issues. A relatively low-key Council/^{in July but not sooner} could enable preparatory work to be undertaken by the Commission and member States to enable progress to be made at a subsequent Council.

25. Mr. Jenkins may ask about HMG's intentions on the national conservation measures which the previous Government had told the Community it intended to introduce on 1 June, if satisfactory Community measures had not been agreed before then. The Minister of Agriculture, Fisheries and Food will tell the House on Friday, 18 May that, for practical reasons, these measures will be implemented on 1 July. He has explained to Vice-President Gundelach why HMG feels that it cannot withdraw from the course of action announced to Parliament by the previous Government in March.

European Monetary System

26. Mr Jenkins is likely to be interested in the new Government's attitude to the European Monetary System. In his speech in London on 16 May he argued that this was another European bus which Britain ought not this time to miss. The Prime Minister is recommended not to be drawn into detailed discussion of this. If necessary she could say that she fully recognises the potential benefits of EMS for currency stability and for the evolution of the Community. She will consider the matter carefully in this light later on, taking into account also all the other aspects of domestic and external economic policy.

/27.

27. At her press conference with Chancellor Schmidt the Prime Minister said that we shall have considered our position by September and therefore will be prepared to take up a position when the System is reviewed. We are now considering separately whether to exercise our option to swap 20% of our gold and dollar reserves for ECUs.

Energy

28. The Commission had raised with the previous Government the compatibility with the Treaty of Rome of the Department of Energy's Interest Relief Grant Scheme for Offshore Supplies. After discussing possible modifications to the Scheme with the previous Government over a period of about 2 years, the Commission published, on the eve of the election, a Decision requiring the UK to abolish the Scheme within 2 months, failing which we are likely to be taken to the European Court. The future of the scheme will be discussed by Ministers in E Committee on 23 May and the reply to the Commission drafted in the light of their conclusions.

29. At the end of last year Commissioner Davignon set out the Commission's difficulties with certain UK North Sea policies, particularly:

- (a) the requirement for North Sea oil and gas to be landed in the UK unless we agree otherwise;
- (b) the Offshore Supplies Office policy requiring North Sea operators to give full and fair opportunity to British industry to compete for orders of goods and services for the UK Continental Shelf (UKCS); and
- (c) the requirement for licencees operating on the UKCS to have their "central management and control" in the UK.

He indicated his wish to find a compromise by which the Commission could accept these policies subject to satisfactory UK assurances on their application. These policies cover important UK interests; but a substantive UK response to M. Davignon's approach has to be determined and this may offer the new Government an opportunity to explore the possibility of reaching an understanding with the Commission on these issues without compromising the UK's basic interests.

/Industrial

Industrial Policy

29. British Rail have placed an order with Harland and Wolff for a new Fishguard/Rosslare ferry. The Commission have refused to approve this order until HMG give an assurance that future orders to Harland and Wolff which involve Government subsidy should first be tendered among other Community yards. This order, which is the fourth in a series, is of great importance to the shipyard, is small in value (£17.8 million), involves a relatively small subsidy (6%) and is urgently needed by British Rail by September 1980. The Northern Ireland Office are recommending that their Secretary of State should write to the Prime Minister asking that she raise this point with Mr Jenkins.

External Issues

30. It is possible that Mr Jenkins may allude briefly to current external issues. The most important are:

- (i) Enlargement, where the Greek Accession Treaty is to be signed in Athens on 28 May, and the negotiations with Portugal and Spain are likely to get going in earnest after the summer.
- (ii) The MTNs on which the Commission can be congratulated on their major contribution to the successful outcome now emerging. The main outstanding points are accurate implementation of the results by the US Congress and completion of the negotiations on the question of safeguard action. Recognition of the possibility of selective safeguard action has been a major EEC objective.
- (iii) Japan. The problem of the Japanese surplus will be discussed at the European Council a week before the Tokyo Summit. The Community has been pressing Japan for several years and with only limited success, to take steps to reduce the surplus. The Japanese Foreign Minister will be in London on the same day as Mr Jenkins.
- (iv) Renegotiation of the Lomé Convention. The final Ministerial negotiating conference is due to take place in Brussels on 24/25 May. The main outstanding

/points



points are the size of the new European Development Fund, Human Rights, certain trade matters (notably the safeguard clause and rules of origin), industrial co-operation, and the question of assistance for mineral producing African, Caribbean and Pacific countries.

17 May 1979



10 DOWNING STREET

From the Private Secretary

11 May 1979

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Call on the Prime Minister by the President of the
European Commission

The President of the European Commission, Mr. Roy Jenkins, has asked whether he might call on the Prime Minister on 21 May. The Prime Minister has agreed to see Mr. Jenkins at 12 noon on that day.

Mr. Tickell has told me that this call would not be a substitute for the further discussion which Mr. Jenkins will wish to have with the Prime Minister prior to the meeting of the European Council in Strasbourg on 21/22 June. Mr. Jenkins will wish on this first occasion to do no more than gain at first hand an account of the new Government's approach to the European Community.

I should be grateful if briefing for the Prime Minister's discussion with Mr. Jenkins could reach me by noon on Friday 18 May. It would be helpful if the Cabinet Office would on this occasion co-ordinate the briefing exercise.

I am sending copies of this letter to Martin Hall (H.M. Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food), Tom Harris (Department of Trade), Peter Mason (Department of Industry), Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

Re

Paul Lever, Esq.,
Foreign and Commonwealth Office.

cc Miss Stehens

PRIME MINISTER

President of the EEC Commission

The President of the Commission, Mr. Roy Jenkins, would very much like to pay a first call on you fairly soon. He will be in London on Monday 21 May and could come to see you at any time that day. You have a clear day at present after your diary meeting at 1030.

Mr. Jenkins always makes a round of calls on all the EEC Heads of Government before a European Council meeting and so he will wish to come and see you again, probably in mid-June, to discuss the agenda for the Council. This first meeting would not be a substantive one but simply a short call to take the temperature of the Government's approach to Europe.

I think it would be useful if you were to see Mr. Jenkins, who is usually very helpful in giving frank advice on the attitudes of other EEC Governments. Would you like to see Mr. Jenkins at, say, 12 noon on 21 May? Or at teatime?

/ *W*
ait

B.S.

10 May 1979

